HSS Hire Group Plc

Audited Results for HSS Hire Group plc for the year ended 28 December 2019

A consecutive year of record EBITDA; action taken to address impact of COVID-19

HSS Hire Group plc ("HSS" or the "Group") today announces results for the year ended 28 December 2019

Financial Highlights – Continuing Operations	FY19	FY18	Change
Revenue	£328.0m	£322.8m	1.6%
Adjusted EBITDA[1]	£63.9m	£60.0m	6.6%
Adjusted EBITDA margin	19.5%	18.6%	0.9pp
Adjusted EBITA[2]	£26.5m	£22.1m	20.1%
Adjusted EBITA margin	8.1%	6.8%	1.3pp
Operating profit	£16.8m	£11.2m	49.9%
ROCE[3]	20.8%	16.7%	4.1pp
Net debt leverage[4]	2.8x	3.3x	0.5x
Adjusted basic earnings per share [5]	2.76p	1.51p	1.25p
Other extracts			
Profit / (loss) for the financial period	£8.7m	£(4.4)m	£13.1m

The new accounting standard IFRS16 *Leases* will be adopted for the financial year beginning 29th December 2019. IFRS16 has not been adopted for the current period and as such all of the financial results have been presented excluding the impact of the standard.

2019 was another year of strong progress

- **Significant improvement in returns driven by highest EBITDA[6] in Group's history**
  - Adjusted EBITDA grew by 6.6% and Adjusted EBITA increased 20.1%
  - Revenue growth and cost initiatives improved EBITDA margins by 0.9pp and EBITA margins by 1.3pp
  - ROCE improved 4.1pp by leveraging insight tools, improved price controls and growth in the capital-light Services business

- **Solid like-for-like Revenue growth of 3.9% excluding impact of loss of Services volume associated with a previously announced change to one managed service contract**
  - Rental revenue growth of 1.3% supported by targeted fleet investment
  - Continued strength in Services with like-for-like revenue +13.6% excluding the impact of the managed service contract
  - LTM utilisation[7] has remained high at 51.7% in Core tool hire and 65.9% in Specialist

- **Further reduction in net debt leverage to 2.8x (2018: 3.3x) as at 28 December 2019**
  - Net debt reduced by £59.2m[8] as a result of improved EBITDA, efficient working capital management and the use of proceeds from the sale of UK Platforms
  - Cash and RCF facility headroom £45.9m as at 28 December 2019

- **Excellent progress against strategic priorities**
    - Customer app successfully rolled out with development ongoing; digital adoption has grown 10 pp in trial markets
    - New driver technology now in place and is improving operational efficiency
    - OneCall automated platform is now fully operational and delivering efficiencies as expected; driving both conversion and margin improvement
    - Continued cost action including further improvements in network efficiency which involved the closure of the cross dock and a Customer Distribution Centre

COVID-19 and Current Trading

- Group traded in line with expectations for the first 12 weeks of FY20 with the first signs of a COVID-19 related trading slowdown seen in the last week of March as the lockdown was enforced
- Following Government guidelines, on 23rd March we took immediate and decisive action to protect staff, preserve cash and maintain continuity of supply to critical customers
    - All HSS branches were closed with colleagues from these locations entered into the Government's Coronavirus job retention scheme
    - Our nationwide Central Distribution Centres and our OneCall re-hire business continue to operate to support our customers.
- Additional management action taken including postponement of fleet capex, rental holidays agreed with landlords, utilisation of rates relief, deferral of certain HMRC payments and management salary reductions
- In the first 9 weeks of Q2, revenue is c40% below normal levels with an improving trend
- As at 23rd May, the Group has a cash and revolving credit facility headroom of £66.7m
- In regular dialogue with our lenders who continue to express their commitment to the business
- Exploring government-backed finance facilities to provide additional liquidity safety net
- The overall impact on FY20 full year results remains highly uncertain and, as such, the Group continues to consider it prudent not to provide market guidance in the near-term

Steve Ashmore, Chief Executive Officer of HSS Hire, said:

"Our primary focus since the start of the COVID-19 outbreak has been, and remains, the safety and wellbeing of our colleagues, customers, suppliers and other stakeholders and this is what informs our decision making. We took immediate and decisive action to preserve cash ahead of what has been a period of significantly reduced economic activity. I am proud of how our team has stepped up and maintained continuity of service to fulfil our role as an essential service for critical customers who need our kit to continue their vital work.

I am delighted 2019 was another year of excellent strategic progress enabling us to post record profits in a market impacted by uncertainty. The benefits of the work we have done since 2017 are coming to fruition and HSS is evolving towards a digital-led equipment services business.

In 2019, targeted capex, strong price control and ongoing cost efficiencies enabled us to deliver a significant improvement in returns. This strong financial performance was underpinned by further improvement in our customer Net Promoter Score demonstrating the commitment and hard work of our colleagues across the business.

The outlook for the remainder of the year is uncertain but we have taken, and continue to take, action to reduce the impact of an extended period of lower revenues, albeit we have been encouraged by recent increases in activity. Our strategic ambitions remain unchanged with the pandemic demonstrating the importance of digital capability. Our digital transformation is well underway with the new customer app in tool hire gaining traction in our trial markets, and in the Services business where our new automated system has been very well received. We will continue to manage the business prudently through this crisis but also ensure we continue to progress our digital journey in order to create the most advanced, customer centric offer in the marketplace."

Notes

1) Adjusted EBITDA is defined as operating profit before depreciation, amortisation, and exceptional items. For this purpose depreciation includes the net book value of hire stock losses and write offs, and the net book value of other fixed asset disposals less the proceeds on those disposals
2) Adjusted EBITA defined as Adjusted EBITDA less depreciation
3) ROCE calculated as Adjusted EBITA for the 12 months to 28th December 2019 divided by the average of total assets less current liabilities (excluding intangible assets, cash and debt items) over the same period
4) Net debt leverage is calculated as closing net debt divided by adjusted EBITDA for the 12 month period to 28th December 2019, excluding UK Platforms.
5) Adjusted earnings per share defined as profit before tax with amortisation and exceptional items added back less tax at the prevailing rate of corporation tax divided by the weighted average of ordinary shares.
6) On a comparable basis excluding UK Platforms
7) Utilisation is calculated for the 12 month period to 28th December 2019 and is value weighted based on rental revenue
8) Net debt at 28th December 2019 compared with net debt including discontinued operations at 29th December 2018

-Ends-

Disclaimer:

This announcement contains forward-looking statements relating to the business, financial performance and results of HSS Hire Group plc and the industry in which HSS Hire Group plc operates. These statements may be identified by words such as "expect", "believe", "estimate", "plan", "target", or "forecast" and similar expressions, or by their context. These statements are made on the basis of current knowledge and assumptions and involve risks and uncertainties. Various factors could cause actual future results, performance or events to differ materially from those described in these statements and neither HSS Hire Group plc nor any other person accepts any responsibility for the accuracy of the opinions expressed in this presentation or the underlying assumptions. No obligation is assumed to update any forward-looking statements.

Notes to editors

HSS Hire Group plc provides tool and equipment hire, re-hire and related services in the UK and Ireland through a nationwide network of over 240 locations and its OneCall re-hire business. It offers a one-stop shop for all equipment through a combination of our complementary rental and re-hire businesses to a diverse, predominantly B2B customer base serving a range of end markets and activities. Over 90% of its revenues come from business customers. HSS is listed on the Main Market of the London Stock Exchange. For more information please see www.hsshiregroup.com.

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Chairman's Statement

We have delivered another year of profitable growth, achieving the highest ever Group Adjusted EBITDA on a comparable basis, through the continued excellent execution of our strategic plan. We now have the foundations in place to support our transformation to a digital-led equipment services market leader.

COVID-19

It is clear that COVID-19 will materially change the outlook for all businesses in 2020 and we are reacting accordingly.

Our primary focus is the safety and security of our colleagues, customers, suppliers and other stakeholders, whilst continuing to provide essential equipment to critical customers. To this end we have enacted our continuity plans to minimise business disruption, ranging from increasing home working for all head office colleagues to stricter hygiene procedures across all of our locations.

In response to UK Government instructions on 23 March, we took the difficult but necessary decision to temporarily close the majority of our UK branches and move to a delivery only operation through our national Customer Distribution Centres and OneCall rehire business. Similar actions were enacted on 30 March in our Southern Irish business in response to Government advice. For the first twelve weeks of FY20 we did not observe any material impact on the Group's performance, however for the 9 weeks since the Government lockdown instruction on 23 March we have seen revenue circa 40% below our original FY20 forecasts.

Immediate actions have been taken to mitigate the unprecedented risks we now face to protect liquidity including deferring capital expenditure and taking advantage of tax relief and Government job retention schemes.

With such uncertainty, we have considered a number of scenarios as to the potential impact that COVID-19 could have on the Group's results as set out in the Corporate Governance section. In certain forecast scenarios there is an indication that financial covenants could be breached and additional liquidity could be required, indicating the existence of a material uncertainty in the adoption of going concern should our lenders not support addressing these areas if they arise. These have been discussed with our lenders, all of whom I am pleased to say have expressed their continued commitment to the business and support for the Board's response to the COVID-19 pandemic.

Sector Opportunity

The UK hire industry is large (£4bn), but still highly fragmented and relatively undifferentiated. Most companies have struggled to differentiate their offering and embrace new technologies, providing a significant opportunity for HSS to take a lead. I am confident that the transformation programme taking place at HSS will deliver significant advantages for the Group, its customers, colleagues, suppliers and investors alike.

Delivering our strategy

I am pleased to report that progress has been made against all of our strategic priorities with significant changes implemented that create the foundations to transform our customer and supplier experience going forward.

Our digital transformation is well underway with the launch of our customer and driver apps, and the introduction of new technology in our OneCall business (see our Case Studies for more information).

We have also implemented a partnership agreement for our OneCall team with Nationwide Platforms following the sale of UK Platforms to Loxam (owner of Nationwide Platforms). This was managed exceptionally well and we continue to generate revenues through our ongoing relationship.

Throughout 2019 we continued to focus on delivering exceptional levels of customer service across the whole business in the most efficient way – implementing additional changes to our network which further reduced our cost base by around £3m per annum.

We now have market-leading technology platforms in place to complement our strong existing business. These will enable us to transform our business to a digital-led equipment services provider, which we believe will deliver superior returns.

Our results

The implementation of our strategy has been excellent and this has been reflected in our strong performance during the financial year, with all measures set out on a continuing operations basis to exclude the impact of the UK Platforms divesture. In 2019 we step changed the returns of the business with improvements in profit margins and Return on Capital Employed increasing to 20.8% compared with 16.7% in 2018.

Adjusted EBITDA for the year at £63.9m, a 6.5% growth year on year, reflects the Group's highest ever comparable performance (adjusted EBITDA from continuing operations) with margins improving to 19.5%, a 4.8% increase over the prior year (2018: 18.6%). A combination of targeted fleet investment, sales initiatives and improved product availability delivered Rental revenue growth of 1.3%. This was augmented by continued strong performance from our Services business with like-for-like revenue growth of 13.6% and, encouragingly, contribution improving 6.4%. Improved revenue combined with lower overheads and a focus on capital efficiency also resulted in Adjusted EBITA increasing to £26.5m and margin improving to 8.1%.

Our results are discussed in more detail in the Financial Review.

Our Board and management team

The Board aspires to lead by example and practice the HSS values which were formally launched in 2019: Make it: Safe, Happen, Better and Together.

I want to thank all Directors for their individual contributions and determination to see the Group through another year of change for our business, whilst ensuring HSS continues to deliver for all stakeholders.

We have also strengthened our management capability during the year with the appointments of Ailsa Webb to lead our team in Scotland, and Grant Lockie to run our Power business. With their extensive experience, both have been strong additions to the Group.

Governance

I reported last year that we were taking steps to implement the changes to corporate governance reflected in the 2018 Code or to reinforce the work we were already doing. More detail on this, and particularly our efforts to date around stakeholder engagement, can be found in the Corporate Governance section and throughout the Strategic Report. I am particularly pleased to note the people projects undertaken and steps to involve colleagues in the direction and strategy of the business.

Our people

I am continually impressed with the motivation, dedication and can-do attitude of our colleagues across the Group to deliver exceptional results, from consistently high customer satisfaction scores through to record-breaking financial performance. This has been borne out by further improvement in our employee engagement results in the 2019 survey. On behalf of the Board, I would like to take this opportunity to thank each and every one of my colleagues for their efforts during 2019.

Sustainability

Our primary responsibility is to always ensure the safety of HSS colleagues and customers, and the Board remains fully committed to providing a safe environment for all. During the year the Board has supported senior management's plans to drive forward a health and safety culture, one of our core values. Progress has been made in the year as borne out by a material reduction in the number of RIDDORs (incidents reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) and feedback from the colleague engagement survey. This will be an ongoing focus.

The Board is also focused on ensuring that the business operates with transparency and integrity, delivering a sound economic performance, whilst paying close attention to reducing our impact on the environment, and that we are contributing in a positive way to the local communities in which we operate.

Dividend

The Board is committed to delivering our strategic priorities, and after careful consideration of the performance of the Group during the year, believes it is in the best interests of the shareholders of the Group to not pay a final dividend in respect of 2019. The Board will re-evaluate this position once the net debt leverage ratio falls below 2.5x.

Looking ahead and COVID-19

I am pleased with our financial results for 2019 and the relentless focus implementing our strategic priorities, especially developing our digital channels. However, in 2020 we must turn our attention to respond to the global COVID-19 pandemic situation. All of my colleagues have come together to take immediate and decisive action to mitigate both the financial and safety risk that the pandemic presents and to enact continuity plans to minimise business disruption, especially with HSS as a key service provider to critical customers across the public sector. We always have, and always will, offer our support to keep the countries in which we operate in safe.

Alan Peterson OBE
Chairman

Chief Executive Officer's Strategic Review

I am pleased to reflect on another year of progress, during which we continued to fulfil our purpose by 'Equipping our customers', and did so more effectively. This sets us in good stead to face the significant challenge presented by COVID-19 in 2020.

Our business exists to equip our customers with the tools, training and information required so they can safely and efficiently build, maintain and operate the UK and Ireland's infrastructure and services. We listened to the feedback received from a comprehensive customer segmentation review in 2018, and, combining this with feedback from colleagues in engagement surveys, targeted specific improvements in how we operate to make our customers and colleagues more effective. We have made good progress delivering on all elements of our strategy:

- Delever the Group
- Transform our Tool Hire business; and
- Strengthen the Group's commercial proposition.

I am pleased with progress in 2019, and to report that HSS is transforming into the market-leading, digital-led brand for equipment services.

However, the trading environment in 2020 has materially changed due to the global COVID-19 pandemic. Significant focus has been placed on ensuring our business continuity plans are robust to deal with the situation, including the transfer of all of our head office colleagues to home working arrangements, so that we can support critical customers in the public sector.

There were no visible signs of the pandemic impacting trading in the first twelve weeks of FY20, with the first signs of a slowdown post the UK Government lockdown announcement on 23 March. In line with UK Government instructions we took the necessary decision to temporarily close the majority of our UK branches switching to a delivery operation from our Customer Distribution Centres and our OneCall rehire business with the subsequent addition of click and collect capability. Similar actions were enacted on 30 March in our Southern Irish business in response to Government advice. As part of these changes impacted colleagues have been entered into Government job retention schemes. For the 9 weeks since 23 March revenue has been around 40% below our original forecasts for the financial year.

Whilst it is difficult to quantify the impact of COVID-19 on the Group's financial results it is clear that we are entering a period of significantly reduced economic activity where cash preservation is fundamental. To this end immediate action has already been taken including deferring capital expenditure, reducing overheads with temporary salary reductions for a number of colleagues and taking advantage of tax relief where available.

We will continue to monitor and manage the emerging situation through twice daily Executive Management Team meetings and will take decisive action as required through what is undoubtedly a period of material uncertainty.

Overview of the year

HSS has made significant progress again improving its operational and financial performance, with the continued implementation of its strategic priorities.

The business has delivered record performance once more despite the backdrop of a challenging market created by Brexit and political uncertainty. We have also had little seasonal benefit, with relatively mild winters and a short-lived hot spell during the summer providing lower demand for heating and cooling products. I believe the excellent financial performance despite these headwinds is a reflection of our enhanced management control, improving agility and resilience, as well as the growing proportion of income derived from our capital-light Services business.

At the start of 2019 we set out to enhance our commercial proposition so that we were better placed to meet our customers' needs. Our focus was on two primary areas:

1. **Digital transformation**; and
2. **OneCall transformation**.

Digital transformation

We decided to enhance our digital offer as a result of customer and colleague feedback about our Tool Hire business. Customers told us about their requirements and it was apparent that we had to enhance our digital offer, so we set out to develop the market-leading end-to-end customer app.

We also listened to our colleagues, including drivers and transport managers, who felt that they did not have the right equipment to carry out their job efficiently and professionally.

Both the customer and driver apps were launched in April 2019, and have been very successful. All our development has been integrated with our industry-leading fully-transactional website, which we have also upgraded.

In addition to the benefits to customers and colleagues, this technology is also delivering fuel savings which are an important part of our sustainability.

OneCall transformation

At the start of 2019 we also began to **transform our OneCall system** in response to customer feedback about rehire. Customers told us that they loved the one-stop shop solution and the advice we gave, but they said it was often slow, manual, involved a lot of back-and-forth and that our communication could be poor. Unsurprisingly, we received similar feedback from our OneCall colleagues, who described the activity of raising contracts as slow and challenging. I personally listened to managers and team leaders explaining how difficult and time-consuming it was to recruit, train and retain people. We consolidated this feedback and embarked on a mission to transform our OneCall processes, to make the rehire experience seamless, for both customers and colleagues alike.

In April 2019, we launched the new OneCall rehire platform; we call it Brenda. Brenda can source any hire equipment from our extensive network of suppliers just as our OneCall business always did, but Brenda significantly shortens the customer journey and provides superior visibility of what is going on for customers, suppliers and colleagues alike. Brenda is a new, modern automated platform, developed by best-in-class third parties, which is easy to configure, modular, scalable and applicable to all procurement categories, providing us with the potential to significantly extend the scope of our service offering beyond equipment hire.

Our achievements in these two primary areas of focus, digital and OneCall, have been significant over a short period of time, and have set us on course to transform this business into the market-leading, digital-led brand for equipment services.

People and culture

Recognising that people are the lifeblood of our business, we set out this year to improve how we attract talent and then engage colleagues so that they stay with us and perform in their roles. We have worked on our recruitment process, significantly improving our careers website and applicant tracking system. We continue to strive to provide colleagues with a sense of purpose, freeing them up to make a difference and get things done, empowering them with challenge and stretch, as well as stimulating a connection with the organisation's greater purpose.

We entered 2019 with the objective of improving our communication and engagement processes and media. We wanted to support a positive and open culture where regular, representative and comprehensive feedback is promoted and acted upon. We listened to the feedback provided in the 2018 colleague engagement survey and took actions in a range of areas. I am pleased to see the engagement score has improved to 72.4% following our latest survey in November 2019 (2018: 71.6%).

Developing our values

At the start of 2019 we also spent time thinking about how to retain and emphasise the positive elements of our culture, in a way that would provide colleagues with clear guidance on the behaviours that drive performance. You may recall my initial impressions of the business, shortly after joining in 2017; I was hugely impressed with the enthusiasm, loyalty and can-do attitude of many of our colleagues. I was keen that we found a way to reinforce these behaviours through a revised set of Company values.

In 2019 we launched our new 'Make it…' Group values. Colleague behaviours drive customer outcomes and loyalty, and ultimately enhance profitability and shareholder returns. Our new values framework has been carefully designed to support colleagues, drive positive behaviours and create a sense of pride and belonging in HSS Hire. We are now weaving these values into our performance management framework, leadership behaviours programme and engagement strategy.

Improving colleague engagement

In 2019 we built on our existing colleague engagement platforms to increase opportunities for colleague dialogue, involvement and feedback. We invited a wide cross-section of colleagues to a series of Executive Roadshows to update them on performance and progress on strategic priorities. We also held regular Simply Safety forums to shine a light on any issues and capture potential areas for improvement. We conducted benefits roadshows, with the support of our key colleague benefits partners, with the aim of both increasing colleagues' awareness of their reward package and driving improvements to it.

Colleague feedback has supported a widespread review of our internal communication, training and benefits offering. Our benefits offering has increased significantly and we have seen improved uptake from colleagues in many areas. We have also raised the profile of our health and wellbeing agenda, particularly in the area of mental health.

Reminder of our strategic priorities

We continue to ensure that all our actions and initiatives support our three clear strategic priorities that we set out in December 2017:

- Delever the Group

- Transform the Tool Hire business
- Strengthen the Group's commercial proposition

Once again, we have made excellent progress against these priorities and I continue to believe that this strategy will lead to continued improvement in terms of shareholder returns, customer outcomes and colleague engagement in the future.

Delever

We saw our leverage significantly reduce from 4.8x at December 2017 to 3.3x at December 2018, and I am pleased to report a continued reduction with leverage being 2.8x at 28 December 2019. This has been achieved by both EBITDA improvement and debt reduction. Details of both can be found in the Financial Review section.

In terms of EBITDA improvement, the three key drivers are: (1) continued revenue growth from both the Rental and Services elements of our business driven by targeted investment in our fleet and strengthening of our salesforce; (2) further strategic cost reduction initiatives; and (3) ongoing cost control disciplines.

Debt reduction has been achieved by: (1) maintaining focus on working capital, primarily through cash collection; (2) using the proceeds from the disposal of UK Platforms Ltd in January to pay down debt; and (3) improving procurement decision making and becoming much more selective about how we deploy our capital investment.

Transform

In 2019, by shining a spotlight on profitability across three areas – customers, products and branches – we were able to grow revenue ahead of the market, significantly improve margins, deliver a marked improvement in ROCE and achieve another record year of adjusted EBITDA on a comparable basis. We did this whilst improving our NPS score from 44 to 45 and improving our colleague engagement score from 71.6 to 72.4. Both results are industry-leading.

I am delighted to say that the transformation in our core Tool Hire business has the potential to deliver further improvements in financial returns, customer service and colleague engagement.

Going forward, we see transformation opportunities in five areas:

1. Continued Digitisation of our Business
2. Standout Service
3. Profit Smart
4. Demand Creation
5. Go-to-Market Optimisation

Continued Digitisation of Our Business

We must continue embracing technology to enhance the customer experience and improve our decision making. The investments we have made in our driver app, customer app, Brenda technology and new insight tools are an important step forward, but there is still significant opportunity to evolve these technologies and optimise the way they are deployed and utilised.

Standout Service

There is now a clear opportunity for HSS to stand out from the competition and drive market share in our fragmented and undifferentiated sector. The new technology we have introduced, together with our fully integrated industry-leading website and our highly engaged colleagues, I am confident that we can deliver significant differentiation advantage.

Profit Smart

We have made significant progress in delivering improved margins and enhanced returns on capital employed. We now have the foundations in place for improved decision making across the full product life-cycle and be even smarter in our day-to-day decision making so that we eliminate costs that do not contribute to shareholder value, customer service or colleague engagement.

Demand Creation

As we continue to trade in a challenging UK market, it is important that we stimulate demand in our target segments. Our plans for Standout Service will allow us to take market share by increasingly cross-selling the full range of Group services and tailoring our proposition to the requirements of different customer segments. Looking further ahead, we will be investing in improving salesforce effectiveness and prioritising our activity with improved analytics.

Go-to-Market Optimisation

We have made significant progress optimising our network and removing fixed costs over the last 24 months. We will explore further potential to reduce fixed costs, optimise working capital and become more agile. We are currently trialling alternative lower cost channels which are providing encouraging initial results.

Excellent progress made against our 2020 Performance Framework which we set out in December 2017[1]

	2018[2]	**2019[2][3]**	2020 Framework
Revenue growth	6.2%	**3.9%**	Ahead of market[4]
Rental revenue growth	3.8%	**1.3%**	Ahead of market[4]
Adjusted EBITDA margin	18.6%	**19.5%**	>20%
Adjusted EBITA margin	6.8%	**8.1%**	>9%
Leverage	3.3x	**2.8x**	<2.5x
Return on Capital Employed	16.7%	**20.8%**	>20%

(1) Targets were revised to be more challenging in April 2019.

(2) Results for 2018 and 2019 are on a continuing operations basis, after stripping out the disposal of UK Platforms.

(3) 2019 revenue adjusted for loss of Services volume related to a managed service contract.

(4) Note: Market Growth 2019 = 0.4% (source: European Rental Association forecast as at Oct 19).

Strengthen

In my overview of the year, I highlighted the improvements we have made to our commercial proposition, in both our digital offer and our OneCall processes, and the impact they have had on customer, colleague and supplier experiences. These are the initial steps in our journey to become the market-leading, digital-led brand for equipment services.

We are changing the equipment hire journey from complicated, opaque and slow, to simple, transparent and fast. We have done this by investing in technology and developing expertise, and now have a platform from which we can Transform our Tool Hire business further.

Going forward, we see opportunities to strengthen our commercial proposition in three areas:

1. E-channel adoption
2. Unlocking the full potential of Brenda
3. Capital-light Services growth

E-channel adoption

We now have the technology to drive e-channel adoption and have already seen significant improvements in online transactions. We continue to develop our technology platform, which benefits us in several areas: on-the-go ordering, stock availability, order visibility, one-stop fulfilment, and supplier engagement. Following a successful marketing trial in the Midlands, we plan to increase e-channel adoption via a series of initiatives.

Unlocking the full potential of Brenda

Our new technology platform has shortened the customer journey and provided superior visibility for all stakeholders. Now we have the opportunity to really drive conversion rates by embedding behaviours and surfacing the technology within our branch network. Our objectives here remain on speed, accuracy and ease.

Capital-light Services growth

There is a widespread requirement amongst large B2B customers with central procurement teams for a single-platform solution that provides a one-stop shop sourcing solution. We have developed a procurement portal to make it easier for our customers to operate and are currently trialling this with a number of organisations. The platform creates a seamless experience for customers, colleagues and suppliers alike. It is completely scalable and provides us with access to new equipment-related verticals such as building suppliers, recruitment and inspection services, all with minimal capital investment.

Our market

Our immediately addressable market for equipment provided from our own rental fleet is approximately £1.9bn, extending to c£4bn once we include the full range of partner services available via our OneCall proposition. The overall market for equipment hire in the UK is estimated to have grown by 0.4% in 2019, a slow-down from the 1.5% seen in 2018 and a result of the general market uncertainty. We expect the market to contract in 2020 due to the impact of COVID-19.

The market remains highly fragmented with approximately half the market being served by small independents, most of which operate from one location. No single player has more than 11% market share. We have leading positions in our primary markets of tool hire, power generation, powered access, HVAC (heating, ventilation and air-conditioning) and training.

Our customer base continues to be large and diverse, operating across a wide set of end markets, including residential, commercial, industrial and infrastructure. Our customers' activities include new-build, maintenance and operation of the UK's built environment, with an emphasis towards the less cyclical areas of maintenance and operation. The end product of our contribution to customers' activity is the houses, schools, hospitals, offices, factories, roads and utilities infrastructure that we all rely on.

We still believe that there is a significant opportunity to differentiate from the competition and become the standout service provider and 'fan's favourite' in our market. In addition, our investment in technology provides the opportunity to create a more scalable, capital-light, digital-led business model, which will improve investor returns.

COVID-19

As I note in my opening comments, the global COVID-19 pandemic is having a major impact on people's lives and the economic outlook as we travel through 2020.

Our primary focus is the safety and security of our colleagues, customers and suppliers as well as other stakeholders. We have taken immediate and decisive action to mitigate the risks, preserve cash and enact our business continuity plans to minimise business disruption. We are absolutely committed to fulfilling our role as an essential service provider during these unprecedented times, offering our full support to keep the countries in which we operate safe. The improvements made to our digital offering and the expansion of our OneCall business mean we are better placed to do so.

Steve Ashmore
Chief Executive Officer

Financial Review

A year of strong financial progress

Financial highlights – continuing operations

	Revenue		Contribution[1]		Adjusted EBITDA[2]		Adjusted EBITA[2]		Operating profit[2]	
£m	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Rental	**£229.0m**	£226.0m	**£155.5m**	£155.4m						
Services	**£99.0m**	£96.8m	**£15.5m**	£14.6m						
Group	**£328.0m**	£322.8m	**£171.0m**	£169.9m	**£63.9m**	£60.0m	**£26.5m**	£22.1m	**£16.8m**	£11.2m

(1) Contribution is defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs (for each segment).

(2) These measures are not reported on a segmental basis because branch and selling costs, central costs and exceptional items (non-finance) are allocated centrally rather than to each reportable segment.

Overview

It is pleasing to report that the Group has built upon last year's strong financial performance to deliver the highest ever level of Adjusted EBITDA on a comparable basis with expansion in profit margins and a step change in ROCE as we deploy our insight tools to drive better investment decisions.

This has been delivered through the continued execution of our strategic initiatives leading to higher revenues, against the backdrop of a broadly flat rental market, and improved operational efficiency, a combination of the implementation of larger projects and increased cost consciousness across the whole organisation.

Net debt leverage continued to reduce towards our medium-term targets with a stronger focus on working capital management and lower total net debt following partial repayment of the term facility with the proceeds of the UK Platforms disposal, completed in January 2019. The Financial Statements for 2019 are presented on a continuing operations basis and therefore exclude UK Platforms.

Our focus in 2020 must now shift to face the clear risks presented by the global COVID-19 pandemic. We are entering a period of significant uncertainty with reduced economic activity. Our primary focus is the safety of our colleagues, customers, suppliers and other stakeholders. It is critical to preserve cash and a number of actions have already been implemented to achieve this goal as set out later in my review. We are also in discussions with lenders to support the Group through this period and these discussions have been positive with commitment to the business expressed.

Revenue

Group revenue improved by 1.6% to £328.0m (FY18: £322.8m) ahead of the forecast UK tool and equipment hire market growth rate of 0.4% for 2019 as estimated by the ERA. The main drivers of improvements were:

- an increase in Rental revenues, to £229.0m (2018: £226.0m) through targeted investment, improved availability following further changes to our operating model and various sales initiatives; and
- another year of strong growth in our Services revenues, up 13.6% on a like-for-like basis (excluding the volume loss associated with a change to one managed service contract) to £99.0m (2018: £96.8m), mainly driven by performance in our rehire business, HSS OneCall, supported by further growth from our HSS Training business.

Group revenue and Rental and related revenues growth are two of our KPIs as, combined with estimates of market size and growth rates, they provide us with a measure of our market share. We performed better than the UK tool and equipment hire market during the year for the reasons set out above.

Segmental performance

Rental revenues

Our Rental revenues were up 1.3% year on year at £229.0m (FY18: £226.0m) and accounted for 69.8% of revenue from continuing operations (FY18: 70.0%). Targeted investment in more profitable product ranges and the benefit of significant changes to our operating model in 2018, returning the testing and maintenance back into the network, improved availability for our customers throughout 2019, supporting revenue growth. Cost initiatives, including the removal of the cross-dock facility, further improved profit margins.

Contribution, defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs, of £155.5m (FY18: £155.4m) was marginally higher year on year, reflecting improved revenue and reduction in operating costs offset by product mix as we drive more ancillary sales and less, higher margin, seasonal product.

Services
Services revenues increased on a like-for-like basis by 13.6% to £99.0m (FY18: £96.8m) and accounted for 30.2% (FY18: 30.0%) of Group revenues. This was principally due to continued growth in HSS OneCall and further improvements in HSS Training. Our Services revenues benefited from existing and new key account contracts where our one-stop shop offering provides clear market differentiation.

Contribution from Services grew by 6.4% to £15.5m (FY18: £14.6m), well ahead of the reported revenue growth rate, reflecting continued focus on effective margin management and operational efficiency with the increased volume managed through a single central team.

Costs
Our cost analysis set out below is on a reported basis and therefore includes our one-off costs associated with streamlining the network and other exceptional items. Year on year variances driven by such costs are identified in the commentary.

Our cost of sales increased by 2.9% from £145.5m to £149.7m, mainly reflecting the growth in our Services revenues (principally HSS OneCall) and the associated third party supply costs incurred to support this activity.

Distribution costs reduced to £33.2m (2018: £34.0m) reflecting the benefit of cost actions taken in the year.

Our administrative expenses decreased by 2.8% from £132.5m to £128.8m as a result of operational efficiency and the benefit of previous cost action flowing through. Included within administrative expenses is £4.1m of exceptional items (2018: £5.0m) – refer to the exceptional items section of this review for more detail.

Adjusted EBITDA and Adjusted EBITA
Our Adjusted EBITDA for 2019 was 6.6% higher at £63.9m (2018: £60.0m) driven by improved revenue, both Rental and Services, combined with increased operational efficiency.

As a result, the Group's Adjusted EBITDA margin from continuing operations for FY19 was 19.5% (FY18: 18.6%). Adjusted EBITDA and margin are included in our KPIs.

Our Adjusted EBITA improved to £26.5m (FY18: £22.1m) largely as a result of improved revenue, operational and capital efficiency. Adjusted EBITA margin increased by 19.1% to 8.1% (FY18: 6.8%).

Adjusted EBITA and margin are included in our KPIs.

Other operating income
Other operating income of £0.5m (2018: £0.5m) reflects the income received from the sub-letting of unutilised space across our network. We continued to optimise our estate in 2019 and maintain our monitoring of the portfolio to identify revenue opportunities or to pursue attractive lease surrender options as and when they arise.

Operating profit
Our operating profit increased from £11.2m in 2018 to £16.8m in 2019, driven by improved revenue and operating performance.

Exceptional items
We have incurred exceptional expenditure in a number of areas of the business as we seek to make cost reductions in order to take the business forward in the coming years. These totalled £6.0m (2018: £6.4m).

During the year the Group consolidated its head office operations, reducing space requirements, and closed its Tottenham CDC to enable greater operational efficiency. These closures resulted in the recognition of an exceptional cost of £3.1m relating to onerous leases and an impairment of £0.4m of property, plant and equipment at these sites. No other branches were closed (2018: 12).

A net credit of £0.2m has been recognised relating to revisions of dark store and onerous lease provisions.

In addition, and in light of headwinds in the market, the Group undertook initiatives to reduce cost. These resulted in closure costs of a centre used to refurbish hire stock and costs to exit contracts related to the operation of a cross-dock facility used to redistribute assets across the network. Internal restructuring was also carried out, resulting in £0.8m of total costs which include £0.6m redundancy costs (2018 £1.1m of redundancy costs).

Profit on disposal of UK Platforms
The disposal of UK Platforms resulted in a profit on disposal of £14.8m in 2019. In 2018 the group recognised £2.1m of costs incurred in relation to the disposal.

Proceeds were used to partially repay the senior finance facility resulting in the accelerated amortisation of related debt issue costs of £1.9m in 2019. In 2018 there was a charge of £1.5m associated with the termination of the previous debt facility earlier than scheduled following the successful refinancing of the Group.

Strategic review (2018 only)

Following the appointment of the new Chief Executive Officer in 2017, a thorough Strategic Review was carried out by the Group. Non-recurring third party consultancy costs of £1.0m were incurred for the period ended 29 December 2018 to support this review. No further costs were incurred in 2019.

Finance costs

Net finance expense (finance expenses less finance income) increased to £22.6m (FY18: £20.4m). This increase is driven by the interest expense associated to the new Group facilities following the successful refinancing in July 2018.

Taxation

The Group has a net tax charge of £0.4m compared with a credit of £2.7m in FY18. The Group made an overall loss for tax purposes in the UK, and the key components of the current year charge are the release of the previously recognised deferred tax asset of £2.5m, partially offset by a reduction in tax suffered in Ireland (£1.3m) and the release of deferred tax liabilities held in respect of fixed assets (£0.9m).

Reported and adjusted earnings per share

Our basic and diluted reported loss per share decreased to a loss of 3.66p (FY18: loss of 3.76p) due to the smaller loss generated in the year.

Our basic adjusted earnings per share, being profit from continuing operations before amortisation and exceptional costs less tax at the prevailing rate of corporation tax divided by the weighted average number of shares, moved from 1.51p in FY18 to 2.76p in FY19. Our diluted adjusted earnings per share, calculated in the same manner as basic adjusted earnings per share but with the weighted average number of shares increased to reflect Long-Term Incentive Plan (LTIP) and Sharesave options, was earnings of 2.31p (FY18: 1.36p). These reflect the significant improvement in Adjusted EBITA in FY19 compared with FY18. Adjusted EPS (diluted) is one of our KPIs and is also used to assess the remuneration of Executive Directors.

Capital expenditure

Additions to intangible assets and property, plant and equipment in the year were £33.7m (2018: £31.8m), largely in relation to hire stock used to support our rental businesses with other amounts spent on property and software development. £27.1m (2018: £22.6m) was spent on hire fleet, with targeted investment on profitable products supported by the Group's new insight tools. The remaining £6.6m was spent on non-hire additions (software and property, plant and equipment) (2018: £9.2m), the increase in investment supporting the digital and OneCall system initiatives.

Return on capital employed

Our ROCE for 2019 was 20.8% compared with 16.7% for FY18. ROCE is calculated as Adjusted EBITA from continuing operations divided by the total of average total assets (excluding intangible assets and cash) less average current liabilities (excluding current debt items). Adjusted EBITA improved by £4.4m (2018: £28.9m improvement) whilst the average capital employed by the Group decreased by 3.5% from the level calculated at the end of 2018, reflecting depreciation and asset disposals being higher than capital expenditure. ROCE is one of our KPIs and is also used to assess the remuneration of Executive Directors.

Provisions

Significant onerous contract provisions were established during 2017 as part of the changes made to the operating model and to streamline operations. Of the onerous contract related to exiting arrangements with Unipart, £3.6m was utilised in the year leaving £19.6m as the closing provision to be utilised over the remaining six years of the contract.

The Group also has onerous lease provisions associated with properties that are fully or partially vacant. £2.6m of the provision was utilised in the year. The other movements in the provision have been discussed as part of the exceptional items section of this review.

The Group's dilapidations provision has decreased from £16.8m to £16.2m.

Cash generated from/utilised in operations

Net cash generated from operating activities was £22.2m for FY19, an increase of £2.4m, with £1m of the improvement generated through improved EBITDA offset by working capital movements and the balance being a combination of reduced outflow on hires equipment purchases offset by higher interest costs.

Leverage and net debt
Net debt (stated gross of issue costs) decreased by £56.0m to £179.5m (FY18: £235.5m).

As at 28 December 2019 the Group had access to £59.3m (2018: £44.7m) of combined liquidity from available cash and undrawn committed borrowing facilities. Our leverage, calculated as net debt divided by Adjusted EBITDA, decreased from 3.3x in FY18 to 2.8x at the end of FY19. This was primarily due to the increase in Adjusted EBITDA generated in FY19, improved working capital management and the overall reduction in net debt following the disposal of UK Platforms. Leverage or Net Debt Ratio is one of our KPIs and is also used to assess the remuneration of Executive Directors.

Prior year adjustment
During the year the Company identified a historical error related to the understatement of customer deposits for certain cash customers when litigation action was taken. The impact in each financial year is immaterial; however, the cumulative impact is to reduce reserves by £1.0m and increase other creditors by the same amount. Separately, changes made to processes in 2018 mean that the issue has not reoccurred in 2018 or 2019. The treatment and impact on the Financial Statements has been set out in note 1.

Use of alternative performance measures to assess and monitor performance
In addition to the statutory figures reported in accordance with IFRS, we use alternative performance measures (APMs) to assess the Group's ongoing performance. The main APMs we use are adjusted EBITDA, adjusted EBITA, adjusted profit before tax, adjusted earnings per share, leverage (or Net Debt Ratio) and ROCE, which, with the exception of adjusted profit before tax, are included in our KPIs.

We believe that Adjusted EBITDA, a widely used and reported metric amongst listed and private companies, presents a 'cleaner' view of the Group's operating profitability in each year by excluding exceptional costs associated with non-recurring projects or events, finance costs, tax charges and non-cash accounting elements such as depreciation and amortisation. This metric is used to calculate any annual bonuses payable to Executive Directors.

Additionally, analysts and investors assess our operating profitability using the adjusted EBITA metric, which treats depreciation charges as an operating cost to reflect the capital-intensive nature of the sector in which we operate.

Analysts and investors also assess our earnings per share using an adjusted earnings per share measure, calculated by dividing an adjusted profit after tax by the weighted average number of shares in issue over the period. This approach aims to show the implied underlying earnings of the Group. The adjusted profit before tax figure comprises the reported loss before tax of the business with amortisation and exceptional costs added back. This amount is then reduced by an illustrative tax charge at the prevailing rate of corporation tax (currently 19%) to give an adjusted profit after tax. Adjusted earnings per share is used as a performance metric for the vesting of 2017 market value options and 2019 LTIP awards.

The calculation of Adjusted EBITDA and Adjusted EBITA can vary between companies, and a reconciliation of Adjusted EBITDA and Adjusted EBITA to operating profit/(loss) and adjusted profit before tax to loss before tax is provided on the face of the Group's income statement.

In accordance with broader market practice we comment on the amount of net debt in the business by reference to leverage (or Net Debt Ratio), which is the multiple of our Adjusted EBITDA that the net debt represents. This metric is also used in the calculation of any annual bonuses payable to Executive Directors.

We use ROCE to assess the return (the Adjusted EBITA) that we generate on the average tangible fixed assets and average working capital employed in each year. We exclude all elements of net debt from this calculation. This metric is also used as a performance metric for the vesting of 2019 LTIP awards.

COVID-19
The COVID-19 pandemic has had a major impact on the global economic outlook. The risks to the Group of COVID-19 have been set out in Principal Risks and Uncertainties. In response to the pandemic a number of immediate actions have been implemented to preserve cash and respond to the emerging situation. In anticipation of reduced economic activity; hire fleet capital expenditure has been deferred, overheads have been reduced including temporary reductions in salaries for a number of colleagues and advantage has been taken of available tax relief options. Responding to recent Government instructions, we have taken the difficult but necessary decision to temporarily close the majority of our UK and Ireland branches, entering the impacted colleagues into Government job retention schemes. We initially moved to a delivery only model serving critical customers from our Customer Distribution Centres and our OneCall rehire business. This has now been supplemented with click and collect capability.

As at 28 December 2019, the Group's financing arrangements consisted of a fully drawn senior finance facility of £182m, overdraft and undrawn revolving credit facilities of £23.2m and a finance lease lines to fund hire fleet capital expenditure, of which £13.5m had not been utilised. Both the senior finance facility and revolving credit facility are subject to a net debt leverage financial covenant test every quarter. At the financial year end the Group had 30% headroom against this covenant. Following year end the Group drew down the RCF in full and at 23 May, the Group had cash and liquid facility headroom of £66.7m.

It is difficult to quantify the impact of COVID-19 on the current financial year and we have therefore modelled a number of downside scenarios as set out in the Corporate Governance section. Some of the scenarios indicate that the financial covenants would be breached and additional liquidity would be required. We have already engaged with the Group's lenders, sharing these downside scenarios, and have been pleased by their continued commitment and support for the business and the Board's response to the COVID-19 pandemic. Whilst we have no reason to believe that the lenders would not support the Group should one of these downside scenarios materialise and a covenant waiver or additional liquidity is required, the Board has recognised the material uncertainty this creates in adopting the going concern basis for preparing the 2019 financial statements.

Paul Quested
Chief Financial Officer

Principal Risks and Uncertainties

Managing risk

The Group has risk management and internal control processes which identify, assess and manage the risks likely to affect the achievement of strategic priorities and performance objectives.

Ownership

The Board sets the strategic priorities and relevant KPIs for the Group, monitors performance against these measures and establishes the risk appetite. Overall responsibility for the principal risks lies with the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), with specific mitigating actions and controls owned by senior management. The Group risk register is maintained by the Risk and Assurance Director and is collectively reviewed in detail by the Executive Management Team (EMT) on a quarterly basis with changes to the risk landscape, assessment and mitigating actions agreed.

Identification

Risks are identified through a variety of sources, both external, to ensure that developing risk themes are considered, and from within the Group. This process is focused on those risks which, if they occurred, would have a material financial or reputational impact on the Group.

Assessment

Management identifies the controls in place for each risk and assesses the impact and likelihood of the risk occurring, taking into account the effect of these controls, being the residual risk. This assessment is compared with the Group's risk appetite to determine whether further mitigating actions are required.

Monitoring

A risk-based internal audit programme is in place to ensure that assurance activity is targeted at key risk areas. Risk-based assurance work is then reported to the Audit Committee on a quarterly basis for review. In addition, the Risk and Assurance Director reports to the EMT and the senior management team on a monthly basis to review the findings of risk-based assurance activity and investigation, provided by the internal audit and Health, Safety, Environment and Quality (HSEQ) teams.

COVID-19

Since the balance sheet date, the COVID-19 pandemic risk has emerged. The situation is under close review by management with immediate actions taken as set out below. The pandemic has a material impact on the following risks; Macroeconomic conditions and Financial.

Description and impact	Mitigation
COVID-19 – impact on demand The COVID-19 pandemic has a material adverse impact on demand and therefore financial performance leading to significantly reduced liquidity and a breach of the net debt leverage covenant in place under our debt facilities.	The Group has modelled various downside scenarios and assessed the impact on liquidity and covenants. Immediate actions taken include the deferral of capital expenditure, overhead reduction, taking advantage of tax relief measures and utilising the Government's job retention scheme. These scenarios have formed the basis for discussions with the Group's lenders, who have expressed commitment to the business and support for the Board's response. We continue to work with the lenders to ensure that appropriate liquidity is in place and we have covenant flexibility.
COVID-19 – impact on supply COVID-19 leads to disruption in supply for our customers due to site closures. Our supply chain is adversely impacted by restricted access to spares leading to reduced product availability for our customers.	The Group has strong business continuity plans to ensure continuity of supply. Colleagues at our head office have been provided with laptops to enable home working and this was thoroughly tested prior to lockdown, with flexible working patterns put in place to reduce the risk of an entire function being impacted by the virus at the same time. Since lockdown head office has been closed. We continue to work with our suppliers to ensure that appropriate spares are available within the UK. At this stage there are limited impacts to supply.
COVID-19 – impact on safety COVID-19 has an adverse impact on the health and safety of our colleagues.	Stricter hygiene procedures have been implemented across all of our locations with only a limited number being operational since lockdown. Operational processes have been changed including removing the need for customers to sign on glass for deliveries and a contact free click and collect

	service. Support is in place for colleagues who need to self-isolate. Work patterns were changed to support remote working, especially for those colleagues with underlying health conditions or dependants.

Principal risks and strategy

The Board has carried out a robust assessment of the principal financial and operating risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, based on its three strategic priorities:

- Delever the business (control cost)
- Transform the Tool Hire business (increase profit)
- Strengthen our commercial proposition (growth)

These risks, how they have changed and how they are mitigated are shown in the table below.

Key risks	Description and impact	Mitigation	Risk change
Macroeconomic conditions	An economic downturn in the UK and Ireland may adversely affect the Group's revenue and operating results by decreasing the demand for its services and the prices it may charge. The COVID-19 pandemic leads to significantly reduced global economic activity including customers unable to operate due to enforced lockdowns to slowdown the spread of the virus.	The Group focuses on the 'fit-out, maintain and operate' markets, which are less cyclical, less discretionary and have a larger proportion of recurring spend than the new-build construction sector. While the Group is not isolated from the construction sector, it focuses on the non-construction portion of the market, with specific exposure in the facilities management, retail, commercial fit-out, property, utilities and waste, infrastructure and energy services markets. The actions already implemented are set out in the detailed COVID-19 risk table. Monitoring of the developing situation and appropriateness of the implemented mitigating actions is reviewed daily by the EMT.	+ Increasing – due to impact of COVID-19
Competitor challenge	The Group's industry is highly competitive, and competition may increase. The equipment rental industry is highly fragmented, with competitors ranging from national equipment rental companies to smaller multi-regional companies and small, independent businesses operating in a limited number of locations. Competition in the market could lead to excess capacity and resultant pricing pressure.	The Group is ranked second or third in each of its primary markets and the resulting economies of scale enable it to be highly competitive, whilst the fragmented nature of the market may offer consolidation opportunities. The Group's national presence, effective distribution service model and well-maintained fleet provide improved customer availability. Through its Services business, the Group provides customers with access to a significantly wider range of products and complementary services such as training courses. A key part of the strategy is to Strengthen the Group's commercial proposition. Following on from an extensive customer segmentation review, focused plans to differentiate further through the development of the Digital and Services business offer were designed. Implementation to date has been in line with planned timescales and the Group's governance process. A central trading team has been set up to monitor and manage changes in price, providing controls to ensure effective margin	+ Increasing – risk of price deflation in market

		management.	
Strategy execution	Failure to successfully implement the Group's strategic plans could lead to lower than forecast financial performance in terms of both revenue growth and cost savings.	A clearly defined and communicated strategic plan has been established with appropriate performance metrics and key performance indicators. Prioritised projects have been identified to deliver the strategic plan and have been appropriately resourced. A clear governance structure has been established, with accountabilities designed to support delivery on time, to quality and within budget. Implementation of projects is monitored by the EMT with regular updates, including initiative specific deep dives, to the Board.	=
Customer service	The reliable supply of safe, good-quality and well-maintained equipment in a timely and cost-effective manner is critical for delivery of the Group's customer promise. The provision of the Group's expected service levels depends on its ability to efficiently transport hire fleet across the network to ensure that it is in the right place, at the right time and of the appropriate quality. The Group is dependent on its relationships with key suppliers to obtain equipment and other services on acceptable terms. Any disruption in supply, reduced availability or unreliable equipment can reduce potential revenue and drive additional operating costs into the business. In addition, a decline in the Group's customer service levels could result in a loss of customers and market share. Enforced closures to slowdown the spread of the COVID-19 virus impact continuity of supply to our customers.	The Group has a flexible national distribution model incorporating CDCs which support the branch network. This flexibility ensures that supply can be maintained in the event of a failure at any CDC. Performance is continually monitored to identify areas where the efficiency, and therefore cost, of the network can be improved. Extensive colleague training is conducted to ensure that testing and repair quality standards continue to be maintained. The Group makes every effort to evaluate its counterparties prior to entering into significant procurement contracts and seeks to maintain a range of suppliers. A number of business accreditations are maintained, including ISO, which provides our customers with confidence in the quality of the services provided. Following recent Government instruction in response to COVID-19, the majority of branches have been temporarily closed. The Group has moved to a distribution and click and collect model through its national customer distribution centre network and OneCall re-hire business.	=
Third party service	A significant amount of the Group revenue is derived from the Services business which is dependent upon the performance of third party service providers. If any third parties become unable or refuse to fulfil their obligations, or violate laws or regulations, there could be a negative impact on the Group's operations leading to an adverse impact on profitability and publicity.	Outsourcing of services by the Group is subject to stringent procurement and service criteria and all contracts are subject to demanding service level agreements. Performance and quality KPIs are monitored on an ongoing basis. The wide and diverse range of OneCall suppliers provides flexibility to select those who meet the required service levels.	=
IT infrastructure	The Group requires an agile IT system that supports the delivery of its strategic plan. Where this involves third party technology it is critical that this is effectively integrated into the Group's core systems. All Group systems need to be appropriately resourced to support the delivery of day-to-	The current IT system has been fully reviewed and, following extensive due diligence, the Group has engaged with third party technology providers to develop organisational agile capacity ensuring that current and future IT systems are optimised to deliver the strategic plan.	+ Increased – due to the importance of digital to our strategy

	day business operations. Any IT system malfunction may affect the ability to manage its operations and distribute its hire equipment and services to customers, affecting revenue and reputation. An internal or external security attack could lead to a potential loss of confidential information and disruption to the business' transactions with customers and suppliers.	Third party specialists continue to be engaged to assess the appropriateness of IT controls, including the risk of malicious or inadvertent security attacks. This includes penetration testing on a regular basis to detect weakness in our IT and cyber security. Any resultant actions are prioritised through the Group's governance process. Historically this has resulted in the implementation of additional software to identify any attack or attempt to download personal data in addition to already existing firewalls. Disaster recovery tests are carried out on a regular basis and appropriate back-up servers are in place to manage the risk of primary server failure. A cross-departmental Data Governance Team is in place to ensure that business process are, and continue to be, adequate.	
Financial	To deliver its strategic goals the Group must have access to funding at a reasonable cost. The impact of COVID-19 could lead to a breach of financial covenants and requirement for additional liquidity due to significantly reduced demand and delays in customers settling their debt. Some of the Group's customers may be unwilling or unable to fulfil the terms of their rental agreements with the Group. Bad debts and credit losses can also arise due to service issues or fraud. Unauthorised, incorrect or fraudulent payments could be made, leading to financial loss or delays in payment which could adversely affect the relationship with suppliers and lead to a disruption in supply.	The actions already implemented are set out in the detailed COVID-19 risk table. The monitoring of the developing situation and appropriateness of the implemented mitigating actions is reviewed daily by the EMT. Working capital management remains a clear focus with cash collection targets (which roll up into our net debt and ROCE KPIs) cascaded throughout the business. These are reviewed by the EMT on a regular basis. The risk of fluctuating interest rates reducing profitability has been mitigated by entering into an interest rate cap arrangement. The Group runs extensive credit checking for its account customers and maintains strict credit control over its diversified customer base. Credit insurance is in place to minimise exposure to larger customer default risk. The Group's investigation team conducts proactive and reactive work in order to minimise the Group's exposure to fraud, and provides ongoing training in this area. Payments and amendments authority is defined by the Group's authorisation matrix with periodic IA risk-based audits to ensure that they are being adhered to.	+ Increasing – due to impact of COVID-19
Inability to attract and retain personnel	The Group needs to ensure that the appropriate people resources are in place to support the existing and future growth of the business. Failure to attract and retain the necessary high-performing colleagues could adversely impact targeted financial performance.	The Group regularly benchmarks market rates and seeks to ensure a competitive pay and benefits package. It also focuses on building the right working environment for its colleagues. Training for colleagues is provided at all levels to build capability and improve compliance. Training is job related and behaviour focused, all through blended learning. Colleague engagement surveys are conducted, with actions taken as a result of the feedback. Integral to enabling delivery of the Group's strategic goals are a series of people-related projects. These projects are aimed at colleague	=

		retention and engagement including embedding Group values, targeted management development, expansion of apprenticeships and increased communications at all levels. These are managed and monitored through a clear governance structure.	
Safety, legal and regulatory requirements	Failure to comply with laws or regulation, such as the Companies Act 2006, accounting regulations, health and safety law, the Bribery Act 2010, Modern Slavery Act 2015, Criminal Finances Act 2017 or General Data Protection Regulation (GDPR), leading to material misstatement and potential legal, financial and reputational liabilities for non-compliance. The Group operates in industries where safety is paramount for colleagues, customers and the general public. Failure to maintain high safety standards could lead to the risk of serious injury or death.	Robust governance is maintained within the Group including: a strong financial structure; assurance provision from internal and external audit; and employment of internal specialist expertise supported by suitably qualified and experienced external practitioners. Since the introduction of GDPR, the Group's Data Governance Team has continued to meet regularly to review and monitor progress and developments. Training and awareness programmes are in place, focusing on anti-bribery, anti-modern slavery, anti-facilitation of tax evasion and data protection legislation. Colleagues are encouraged to raise concerns through the policy, either through their line manager, via any of our three whistleblowing officers (anonymously, should a colleague so wish) or via 'Protect', an independent charity specialising in whistleblowing advisory services. The Audit Committee reviews all whistleblowing cases, including gaining satisfaction of appropriate resolution. The Group operates a clear health and safety policy with ongoing risk management, monitoring of accidents and colleague engagement overseen by the EMT and a Health and Safety Forum comprising senior managers. Additional assurance and support is provided by a fully skilled HSEQ team and an internal Group investigation team.	=

Key

= Unchanged

\+ Increased

\- Decreased

Financial Statements

Consolidated Income Statement

For the year ended 28 December 2019

	Note	**Year ended 28 December 2019 £000s**	Year ended 29 December 2018 £000s
Revenue	3	**328,005**	322,767
Cost of sales		**(149,706)**	(145,549)
Gross profit		**178,299**	177,218
Distribution costs		**(33,190)**	(33,980)
Administrative expenses		**(128,830)**	(132,514)
Other operating income	4	**542**	494
Adjusted EBITDA	3	**63,929**	59,967
Less: Depreciation	10	**(37,396)**	(37,883)
Adjusted EBITA		**26,533**	22,084
Less: Exceptional items (non-finance)	5	**(4,094)**	(4,965)
Less: Amortisation	9	**(5,618)**	(5,901)
Operating profit		**16,821**	11,218
Finance expense	6	**(22,609)**	(20,374)
Adjusted profit before tax		**5,806**	3,170
Less: Exceptional items (non-finance)	5	**(4,094)**	(4,965)
Less: Exceptional items (finance)	5	**(1,882)**	(1,460)
Less: Amortisation	9	**(5,618)**	(5,901)
(Loss) before tax		**(5,788)**	(9,156)
Income tax (charge)/credit	7	**(436)**	2,749
(Loss) from continuing operations		**(6,224)**	(6,407)
Profit on disposal of discontinued operations	15	**14,770**	(2,080)
Profit from discontinued operations, net of tax	15	**162**	4,067
Profit/(loss) for the financial year		**8,708**	(4,420)
Profit/(loss) per share (pence)			
Continuing operations			
Basic and diluted loss per share	8	**(3.66)**	(3.76)
Adjusted basic earnings per share(1)	8	**2.76**	1.51
Adjusted diluted earnings per share(1)	8	**2.31**	1.36

Continuing and discontinued operations			
Basic and diluted earnings/(loss) per share	8	**5.12**	(2.60)
Adjusted basic earnings per share[1]	8	**2.84**	3.81
Adjusted diluted earnings per share[1]	8	**2.38**	3.45

(1) Adjusted earnings per share is defined as profit before tax with amortisation and exceptional costs added back less tax at the prevailing rate of corporation tax divided by the weighted average number of ordinary shares.

Consolidated Statement of Comprehensive Income

For the year ended 28 December 2019

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Profit/(loss) for the financial year	**8,708**	(4,420)
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**(782)**	(245)
Losses arising on cash flow hedges	**(144)**	(162)
Other comprehensive loss for the year, net of tax	**(926)**	(407)
Total comprehensive income for the year	**7,782**	(4,827)
Attributable to owners of the Company	**7,782**	(4,827)

Consolidated Statement of Financial Position
For the year ended 28 December 2019

	Note	**Year ended 28 December 2019 £000s**	Year ended 29 December 2018 (restated) £000s
ASSETS			
Non-current assets			
Intangible assets	9	**160,378**	163,657
Property, plant and equipment	10	**101,851**	109,129
Deferred tax assets		**–**	2,500
Derivative financial instruments		**14**	405
		262,243	275,691
Current assets			
Inventories		**3,735**	4,333
Trade and other receivables	11	**88,396**	93,981
Cash		**22,658**	17,832
Assets classified as held for sale	14	**–**	46,716
		114,789	162,862
Total assets		**377,032**	438,553
LIABILITIES			
Current liabilities			
Trade and other payables		**(66,031)**	(72,008)
Borrowings and finance lease liabilities	12	**(5,355)**	(19,304)
Provisions	13	**(8,145)**	(10,284)
Current tax liabilities		**–**	(101)
Liabilities associated classified as held for sale	14	**–**	(13,544)
		(79,531)	(115,241)
Non-current liabilities			
Borrowings and finance lease liabilities	12	**(185,729)**	(217,630)
Provisions	13	**(32,470)**	(34,048)
Deferred tax liabilities		**(341)**	(1,168)
		(218,540)	(252,846)
Total liabilities		**(298,071)**	(368,087)
Net assets		**78,961**	70,466
EQUITY			
Share capital		**1,702**	1,702
Warrant reserves		**2,694**	2,694
Merger reserve		**97,780**	97,780

Foreign exchange translation reserve	**(602)**	180
Cash flow hedging reserve	**(306)**	(162)
Retained deficit	**(22,307)**	(31,728)
Total equity	**78,961**	70,466

The financial statements were approved and authorised for issue by the board of directors on 26 May 2020 and were signed on its behalf by:

P Quested
Director
26 May 2020

Consolidated Statement of Changes in Equity
For the year ended 28 December 2019

	Share capital £000s	Warrant reserve £000s	Merger reserve £000s	Foreign exchange translation reserve £000s	Cash flow hedging reserve £000s	Retained earnings/ (deficit) £000s	Total equity £000s
At 30 December 2018 as restated	**1,702**	**2,694**	**97,780**	**180**	**(162)**	**(31,728)**	**70,466**
Total comprehensive income for the year							
Profit for the year	–	–	–	–	–	**8,708**	**8,708**
Foreign currency translation differences arising on consolidation of foreign operations	–	–	–	**(782)**	–	–	**(782)**
Hedging of financial instruments	–	–	–	–	**(144)**	–	**(144)**
Total comprehensive income for the year	–	–	–	**(782)**	**(144)**	**8,708**	**7,782**
Transactions with owners recorded directly in equity							
Share-based payment charge	–	–	–	–	–	**713**	**713**
At 28 December 2019	**1,702**	**2,694**	**97,780**	**(602)**	**(306)**	**(22,307)**	**78,961**

	Share capital £000s	Warrant reserve £000s	Merger reserve £000s	Foreign exchange translation reserve £000s	Cash flow hedging reserve £000s	Retained earnings £000s	Total equity £000s
At 31 December 2017 – as previously presented	1,702	–	97,780	425	–	(26,335)	73,572
Prior year adjustment	–	–	–	–	–	(997)	(997)
At 31 December 2017 – as restated	1,702	–	97,780	425	–	(27,332)	72,575
Total comprehensive loss for the year							
(Loss) for the year	–	–	–	–	–	(4,420)	(4,420)
Foreign currency translation differences arising on consolidation of foreign operations	–	–	–	(245)		–	(245)
Hedging of financial instruments	–	–	–	–	(162)	–	(162)
Total comprehensive loss for the year	–	–	–	(245)	(162)	(4,420)	(4,827)
Transactions with owners recorded directly in equity							
Share-based payment charge	–	–	–	–	–	24	24
Warrants issued	–	2,694	–	–		–	2,694
At 29 December 2018 – as previously presented	1,702	2,694	97,780	180	(162)	(30,731)	71,463
At 29 December 2018 – as restated	1,702	2,694	97,780	180	(162)	(31,728)	70,466

Consolidated Statement of Cash Flows
For the year ended 28 December 2019

	Note	**Year ended 28 December 2019 £000s**	Year ended 29 December 2018 £000s
Cash flows from operating activities			
Profit/(loss) after income tax		**8,708**	(4,420)
Adjustments for:			
– Tax		**436**	(2,172)
– Profit on disposal of discontinued operations	15	**(14,770)**	2,080
– Amortisation	9	**5,525**	5,946
– Depreciation	10	**28,750**	31,509
– Accelerated depreciation relating to hire stock customer losses and hire stock write offs	10	**8,257**	11,455
– Impairment of property, plant and equipment	10	**363**	533
– Disposal of intangible assets	9	**96**	–
– Impairment of intangible assets	9	**–**	60
– Loss on disposal of property, plant and equipment	10	**576**	455
– Share-based payment charge		**714**	24
– Foreign exchange gains on operating activities		**(474)**	(360)
– Finance expense	6	**22,609**	20,814
Changes in working capital (excluding the effects of disposals and exchange differences on consolidation):			
– Inventories		**589**	828
– Trade and other receivables		**5,863**	(2,548)
– Trade and other payables		**(4,362)**	(54)
– Provisions		**(3,718)**	(8,302)
Net cash flows from operating activities before changes in hire equipment		**59,162**	55,848
Purchase of hire equipment	10	**(18,972)**	(18,544)
Cash generated from operating activities		**40,190**	37,304
Net interest paid		**(18,498)**	(17,265)
Income tax repaid/(paid)		**490**	(231)
Net cash generated from operating activities		**22,182**	19,808
Cash flows from investing activities			
Proceeds on disposal of businesses, net of cash disposed of		**45,618**	–
Disposal of assets held for sale		**–**	1,500
Purchases of non-hire property, plant, equipment and software	9, 10	**(6,670)**	(7,238)
Net cash flows generated from/(used in) investing activities		**38,948**	(5,738)
Cash flows from financing activities			
Bank arrangement fee		**–**	(11,237)
Proceeds from borrowings (third parties)		**–**	233,000
Repayment of borrowings		**(51,018)**	(205,000)
Capital element of finance lease payments		**(7,361)**	(12,510)

Acquisition of derivative financial instruments	–	(567)
Net cash (paid)/received from financing activities	**(58,379)**	3,686
Net increase in cash	**2,751**	17,756
Cash at the start of the year – total	**19,907**	2,151
Cash at the end of the year – total	**22,658**	19,907
Cash at the end of the year – continuing operations	**22,658**	17,832

1. Basis of preparation

The Group's financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and on a basis consistent with those policies set out in our audited financial statements for the year ended 28 December 2019 (which will be available at www.hsshiregroup.com/ investor-relations/financial-results). These policies are consistent with those shown in the audited financial statements for the year ended 29 December 2018. The financial statements were approved by the Board on 26 May 2020.

The financial information for the year ended 28 December 2019 and the year ended 29 December 2018 does not constitute the company's statutory accounts for those years. Statutory accounts for the year ended 29 December 2018 have been delivered to the Registrar of Companies. The statutory accounts for the year ended 28 December 2019 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The auditors' reports on the accounts for the years ended 28 December 2019 and 29 December 2018 were unqualified and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006. The auditors' reports on the accounts for the year ended 29 December 2018 did not draw attention to any matters by way of emphasis but that for the year ended 28 December 2019 included a reference to a material uncertainty related to going concern as follows:

> We draw attention to note 1e in the financial statements, which indicates that the Group and Parent Company may breach their bank covenants and may require further liquidity due to the possible effects of the ongoing COVID-19 pandemic. As stated in note 1e, these events or conditions, along with other matters as set out in note 1e, indicate that a material uncertainty exists that may cast significant doubt on the Group and Parent Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The Annual Report and Accounts for the year ended 28 December 2019 will be posted to shareholders on or about 1 June 2020.

Going concern

At 28 December 2019, the Group’s financing arrangements consisted of a fully drawn term senior finance facility of £182.0m, undrawn overdraft and revolving credit facilities of £23.2m and finance lease lines to fund hire fleet capital expenditure, of which £13.4m had not been utilised. Both the senior finance facility and revolving credit facility are subject to a net debt leverage financial covenant test every quarter. At the financial year end the Group had 30% headroom against this covenant. Subsequent to year end the Group drew down the remaining £17.2m from the RCF.

The Group’s forecasts and projections (prior to COVID-19), taking into account strategic initiatives and reasonably possible changes in trading performance, show that the business will be able to operate within the level of its facilities for at least 12 months from the approval date of these Consolidated Financial Statements.

The uncertainty as to the future impact of the COVID-19 pandemic has been considered as part of the Group’s adoption of the going concern basis.

In the first 12 weeks of FY20 COVID-19 did not have a material impact on the Group’s performance. However, the first signs of a trading slowdown were detected in week 13, following the Government’s lockdown instruction. In response to this instruction, the Group temporarily closed the majority of its UK branches and moved to a delivery-only operation through its national network of Customer Distribution Centres (CDCs) and its OneCall re-hire business, providing essential equipment to critical customers. Since this date, and after establishing additional safe working practices, the Group has added click and collect capability at each CDC.

Whilst it is difficult to quantify the impact of COVID-19 on the Group’s financial results, the Directors have considered a number of downside scenarios. In preparing these, key revenue assumptions have been applied for the period from April 2020 to April 2021; namely material reductions in revenue of between 35% and 55% against the Group’s original forecasts for Q2 FY20 followed by varying degrees of recovery through the remainder of the period. All scenarios assume being 10% below previous revenue expectations from April 2021 to December 2022. Further assumptions have been made on the recoverability of trade receivables being delays in receiving £20m to £30m and £10m not being recovered.

These downsides have been mitigated by the expected impact of immediate actions taken including: the deferral of capital expenditure, overhead reduction of £2.5m per month as colleagues are entered into the Government’s job retention scheme and management take salary reductions for a period of three months from April 2020, rent payment holiday negotiations with landlords, advantage taken of available tax relief and extending payment terms with a number of the Group’s stakeholders.

Taking a view in which not all expected benefits of mitigating actions are achieved and the £10m of trade receivables referenced above are not recovered, the Group could sustain the following loss of revenue against the original forecasts referenced above without breaching the financial covenants or requiring additional liquidity: Q2 FY20 39%, Q3 FY20 13%, Q4 FY20 6%, Q1 FY21 5%, Q2 FY21 5%.

There are certain forecast scenarios which indicate that financial covenants would be breached and other scenarios which indicate a breach in covenants together with a need for additional liquidity would arise. Should a breach occur, the Group would seek to obtain a waiver agreement with the senior finance facility and revolving credit facility lenders, including accessing government-backed schemes. Should further liquidity be required, the Group would seek to agree additional short-term facilities with lenders and deferral of capital and interest payments. Given the lack of certainty on reaching agreement with the lenders on a waiver in the event of a breach of covenant, and on securing the additional liquidity required, the existence of a material uncertainty which may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern is indicated. The Directors have noted that preliminary discussions with the Group's lenders have resulted in an ongoing commitment being expressed to the business and support for the Board's response to the COVID-19 pandemic. Accordingly, the Group continues to adopt the going concern basis in preparing its Consolidated Financial Statements. The financial statements do not include the adjustments that would be required should the going concern basis of preparation no longer be appropriate.

Prior year adjustment
During the year the Group identified a historical error related to the understatement of customer deposits for certain cash customers. The issue goes back a number of years and although immaterial in each financial year has the cumulative impact of reducing reserves by £997k and increasing creditors by the same amount. Separately, changes made to process mean that the issue has not reoccurred in 2018 or 2019. A full balance sheet as at 30 December 2017 has not been presented in accordance with IAS 1 given the limited number of line items affected. The adjustment has no impact on reported EPS. The effect of the adjustment posted to correct this historical error has been included in the table below.

	2018 As previously presented £000s	2018 Effect of adjustment £000s	2018 As restated £000s
Other creditors	368	997	1,365
Retained (deficit)	(30,731)	(997)	(31,728)

	2017 As previously presented £000s	2017 Effect of adjustment £000s	2017 As restated £000s
Other creditors	916	997	1,913
Retained (deficit)	(26,335)	(997)	(27,322)

2. New accounting standards, accounting standards not yet effective and changes in accounting policy

Standards effective for the first time in the year
There were no new IFRSs or IFRICs that had to be implemented during the year that materially affect these financial statements.

Standards effective in future periods
IFRS16 Leases Implementation
IFRS 16 Leases is mandatory for periods beginning on or after 1 January 2019. The Group has worked with third party specialists to develop IFRS 16 policies along with processes and systems to manage their successful implementation. This work was ongoing through 2019, as such the decision was taken not to adopt IFRS16 early for the financial year 30 December 2018 to 28 December 2019 as had been planned and noted in the Annual Report and Financial Statements 2018. The date of initial application (DIA) will now be for the financial year starting 29th December 2019. Taking the time allowed by the standard gives management the opportunity to perform a full review of its lease portfolio and accurately assess the impact of IFRS 16 and the required disclosure. The Group is in the process of finalising the detailed reconciliations required prior to full implementation of its new lease management system which will drive the IFRS16 accounting.

Capitalisation of lease contracts
Under IFRS 16, the Group will capitalise the right of use of all its property leases, vehicle leases, hire and other equipment leases previously held under operating leases, other than leases ending within twelve months or where the asset is of low value. The lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain that it will exercise contractual termination or extension options.

The Group will apply the cumulative catch-up ('modified') transition method. Under this option the Group will apply the option that calculates the right-of-use asset as equal to the lease liability for leases previously accounted for as operating leases. The comparative information will not be restated and will continue be reported under IAS 17 and IFRIC 4. The Group will recognise a right of use (ROU) asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments. The ROU asset is adjusted for any prepaid or accrued lease payments relating to that lease that were recognised in the statement of financial position immediately before the DIA. The company has taken the practical expedient available to rely on its assessment of whether a lease is onerous by applying IAS 37 immediately before the date of initial application, reducing the carrying value of its ROU asset at the DIA.

Operating lease expenses will be replaced by a depreciation of right of use assets expense and an interest expense as the interest rate implicit in the Group's lease liabilities unwinds.

Discount rates
The Group has assessed that the interest rate implicit in the lease is not readily determinable for any of its leases and will therefore be using an incremental borrowing rate for all leases, with a single rate applied to leases of similar characteristics. The discount rate selected for non-property leases is the rate at which the Group expects to finance assets of a similar class. For property, rates are those at which the Group might expect to borrow at if acquiring an interest in property, over five and ten year tenures. These rates are adjusted upwards for properties considered to be higher risk because of geographic region or age.

Lessor accounting
The Group acts as intermediate lessor on vacant properties it sublets to assist in covering costs until the lease term ends or a break clause can be triggered. The Group will assess whether the sub-lease is a finance or operating lease in the context of the ROU asset being leased, not the underlying asset. When the sublet is identified as a finance lease, a net investment in the sublease will be created and included in Trade and other receivables and the corresponding ROU asset will be accounted for as a disposal.

Sale and leaseback transactions
Under IFRS 16 the Group will continue to account for its various sale and leaseback transactions entered into for large hire equipment prior to 28 December 2019 as a sale and leaseback transaction. The Group will recognises a lease liability and ROU asset on 29 December 2019 measured in the same way as other finance leases on this date.

Expected impact
Subject to the finalisation of the new system, related policy and specific judgements in determining the lease terms, on adoption of IFRS 16, the Group expects to recognise circa £85m of additional lease liabilities and around £84m ROU assets related to existing operating leases. The reduction in the ROU asset versus lease liability is the result of transfers from onerous lease provisions, rent accruals and prepayments on the balance sheet. Annual operating lease expenses, which would have been recognised under the previous accounting standard, will be replaced by depreciation and interest expense. The interest expense is weighted towards the earlier years of the leases and as such there would be a reduction in profit before tax for the year ending 26 December 2020 which is expected to be less than £2m, assuming no change to the lease portfolio. The standard will not impact the Group's underlying cash flows. The standard will also impact a number of other statutory measures such as operating profit and cash generated from operations and alternative non-IFRS financial performance measures used by the Group.

Other standards
The Company is currently assessing the impact of the following accounting standards and amendments:

IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23), which comes into effect for accounting periods starting on or after 1 January 2019;

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material); which comes into effect for accounting periods starting on or after 1 January 2020;

IFRS 3 Business Combinations (Amendment – Definition of Business), which comes into effect for accounting periods starting on or after 1 January 2020;

Revised Conceptual Framework for Financial Reporting.

3. Segment reporting

The Group's operations are segmented into the following reportable segments:

- Rental and related revenue; and
- Services.

Rental and related revenue comprises the rental income earned from owned tools and equipment, including small tools, powered access, power generation and, in the previous year, cleaning and HVAC assets, together with directly related revenue such as resale (fuel and other consumables), transport and other ancillary revenues.

Services comprise the Group's rehire business known as HSS OneCall, and HSS Training. HSS OneCall provides customers with a single point of contact for the hire of products that are not available within the HSS fleet and are obtained from approved third party partners. HSS Training provides customers with specialist safety training across a wide range of products and sectors.

Contribution is defined as segment operating profit before branch and selling costs, central costs, depreciation, amortisation and exceptional items.

All segment revenue, operating profit, assets and liabilities are attributable to the principal activity of the Group being the provision of tool and equipment hire and related services in, and to customers in, the United Kingdom and the Republic of Ireland. The Group has one customer which accounts for more than 10% of Group turnover (2018: one).

	Year ended 28 December 2019			
	Rental (and related revenue) £000s	**Services £000s**	**Central £000s**	**Total £000s**
Total revenue from external customers from continuing operations	**228,973**	**99,032**	**–**	**328,005**
Contribution	**155,490**	**15,518**	**–**	**171,008**
Branch and selling costs			**(83,974)**	**(83,974)**
Central costs			**(23,105)**	**(23,105)**
Adjusted EBITDA				**63,929**
Less: Exceptional items			**(4,094)**	**(4,094)**
Less: Depreciation and amortisation	**(32,817)**	**(217)**	**(9,980)**	**(43,014)**
Operating profit				**16,821**
Net finance expenses				**(22,609)**
(Loss) before tax from continuing operations				**(5,788)**
Income tax				**(436)**
Profit on disposal of discontinued operations				**14,770**
Profit for the year from discontinued operations				**162**
Profit after tax and discontinued operations				**8,708**

	Year ended 28 December 2019			
	Rental (and related revenue) £000s	**Services £000s**	**Central £000s**	**Total £000s**
Additions to non-current assets				
Property, plant and equipment	**27,097**	**29**	**4,277**	**31,403**
Intangibles	**–**	**878**	**1,461**	**2,339**
Non-current assets net book value				
Property, plant and equipment	**76,794**	**187**	**24,870**	**101,851**
Intangibles	**155,624**	**785**	**3,969**	**160,378**
Unallocated corporate assets				
Financial instruments			**14**	**14**
Current assets			**114,789**	**114,789**
Current liabilities			**(79,531)**	**(79,531)**
Non-current liabilities			**(218,540)**	**(218,540)**
				78,961

	Year ended 29 December 2018			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers from continuing operations	225,992	96,775	–	322,767
Contribution	155,357	14,586	–	169,943
Branch and selling costs			(84,217)	(84,217)
Central costs			(25,759)	(25,759)
Adjusted EBITDA				59,967
Less: Exceptional items			(4,965)	(4,965)
Less: Depreciation and amortisation	(31,551)	(171)	(12,062)	(43,784)
Operating profit				11,218
Net finance expenses				(20,374)
(Loss) before tax from continuing operations				(9,156)
Income tax				2,749

Profit for the year from discontinued operations	1,987
(Loss) after tax and discontinued operations	(4,420)

	Year ended 29 December 2018 (restated)			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Additions to non-current assets				
Property, plant and equipment	22,578	60	7,344	29,982
Intangibles	–	140	1,704	1,844
Non-current assets net book value				
Property, plant and equipment	79,707	377	29,045	109,129
Intangibles	158,420	324	4,913	163,657
Unallocated corporate assets				
Financial instruments			405	405
Other non-current deferred tax assets			2,500	2,500
Assets held for sale (net)			33,172	33,172
Current assets			116,146	116,146
Current liabilities			(101,697)	(101,697)
Non-current liabilities			(252,846)	(252,846)
				70,466

4. Other operating income

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Other operating income	**542**	494

Other operating income relates to sub-let rental income received on vacant properties which are not onerous.

5. Exceptional items

Items of income or expense have been shown as exceptional either because of their size or nature or because they are non-recurring. As a result, during the year ended 28 December 2019 the Group has recognised exceptional items as follows:

	Included in cost of sales £000s	**Included in distribution costs £000s**	**Included in administrative expenses £000s**	**Included in other operating income £000s**	**Included in finance expense £000s**	**Included in profit on disposal £000s**	**Year ended 28 December 2019 £000s**
Costs related to onerous properties	**–**	**9**	**2,924**	**(46)**	**–**	**–**	**2,887**
Cost reduction programme	**17**	**308**	**519**	**–**	**–**	**–**	**844**
Impairment of property, plant and equipment	**–**	**–**	**363**	**–**	**–**	**–**	**363**
Exceptional items (non-finance)	**17**	**317**	**3,806**	**(46)**	**–**	**–**	**4,094**
Accelerated amortisation of debt issue costs	**–**	**–**	**–**	**–**	**1,882**	**–**	**1,882**
Exceptional items – continuing operations	**17**	**317**	**3,806**	**(46)**	**1,882**	**–**	**5,976**
Business divesture – discontinued operations	**–**	**–**	**–**	**–**	**–**	**(14,770)**	**(14,770)**
Total	**17**	**317**	**3,806**	**(46)**	**1,882**	**(14,770)**	**(8,794)**

During the year ended 29 December 2018, the Group recognised exceptional costs analysed as follows:

	Included in cost of sales £000s	Included in distribution costs £000s	Included in administrative expenses £000s	Included in other operating income £000s	Included in finance expense £000s	Included in profit on disposal £000s	Year ended 29 December 2018 £000s
Onerous leases	–	–	2,620	–	–	–	2,620
Cost reduction programme	2	34	1,111	–	–	–	1,147
Strategic review	–	–	955	–	–	–	955
Impairment of property, plant and equipment	–	–	513	–	–	–	513
Business divesture	–	–	197	–	–	–	197
Sub-let rental income on onerous leases	–	–	–	(467)	–	–	(467)
Exceptional items (non-finance)	2	34	5,396	(467)	–	–	4,965
Costs expensed on refinancing	–	–	–	–	1,460	–	1,460
Exceptional items – continuing operations	2	34	5,396	–	1,460	–	6,425
Exceptional items – discontinued operations	–	–	173	–	–	–	173
Business divesture – discontinued operations	–	–	–	–	–	2,080	2,080
Exceptional items – total	2	34	5,569	(467)	1,460	2,080	8,678

Exceptional items incurred in 2019 and 2018

Costs related to onerous properties: branch and office closures

In 2017 and 2018 the number of branches was reduced to remove less profitable locations with activity centralised into remaining locations. During the year, a distribution centre was closed with operations transferred to nearby centres resulting in an onerous lease provision of £2.1m. No other branches were closed (2018: 12), however the decision to cease using one of the floors at the Manchester registered office resulted in an additional onerous lease provision of £1.0m. The remaining reduction of £(0.2)m relates to the reassessment of existing dark store and onerous lease provisions.

Provisions are created net of expected sub-let income. During the year, sub-let income of £0.7m was received and recognised as negative provision utilisation.

Cost reduction programme
In light of headwinds that emerged in the market during the year, the Group has undertaken initiatives to reduce costs. These include the closure costs of a centre used to refurbish hire stock and costs to exit contracts related to the operation of a cross-dock facility used to redistribute assets across the network. Internal restructuring was also carried out, resulting in £0.8m of total costs which include £0.6m redundancy costs.

In 2018 costs of £1.1m were recognised, largely relating to redundancy, when the Group carried out restructuring as it implemented plans to reduce central overhead.

Accelerated amortisation of debt issue costs
During 2019 an element of proceeds from the UK Platforms disposal was used to repay debt. The early repayment resulted in accelerated amortisation of debt issue costs of £1.9m.

Business divesture
On 19 July 2018 the Group announced the agreement to sell UK Platforms Limited, HSS's powered access business, to Loxam (see note 15 for further details). The transaction completed in 2019 and has been treated as a discontinued operation (note 14). The clearance of this transaction was secured from the Competitions and Markets Authority in December 2018, thereby completing the last major hurdle in the agreement to sell the business. The costs of the transaction were expensed in 2018. See note 15 for details of the profit on disposal recognised during the year.

In 2017 the Group sold the Reintec branded fleet of cleaning machines, and the associated Tecserv equipment maintenance business, which were not considered core to the strategy. In 2018 £0.2m was recognised as exceptional, being a revision to the consideration received on disposal.

Impairment of closed branch property, plant and equipment
Following the branch closures management conducted an impairment review of property, plant and equipment in closed branches to determine what can be reused across the network. During the year ended 28 December 2019, an impairment of £0.4m (2018: £0.5m) to property, plant and equipment was recognised in the closed distribution centre and Manchester registered office referenced above.

Exceptional items incurred in 2018 only

Strategic review
Following the appointment of the new Chief Executive Officer in 2017, a thorough Strategic Review was carried out by the Group. Non-recurring third party consultancy costs of £1.0m were incurred during the year ended 29 December 2018 to complete this review.

Costs expensed on refinancing
The Group refinanced in July 2018, terminating the previous finance facility earlier than scheduled. The £1.5m expensed in 2018 largely relate to a write-off of debt issue costs related to that facility.

6. Finance income and expense

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Bank loans and overdrafts	**325**	1,620
Interest on financial instruments	**247**	–
Term facility	**16,552**	9,440
Senior secured notes	**–**	4,822
Finance leases	**721**	774
Interest unwind on discounted provisions	**414**	169
Debt issue costs	**2,468**	2,089
Exceptional accelerated amortisation of debt issue costs	**1,882**	–
Exceptional finance cost on refinancing the business	**–**	1,460
	22,609	20,374

7. Income tax charge

(a) Analysis of tax charge in the year

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Current tax (credit)/charge		
UK corporation tax on the result for the year	**58**	266
Adjustments in respect of prior years	**(1,295)**	(39)
Total current tax charge/(credit) – continuing operations	**(1,237)**	227
Deferred tax charge/(credit) for the year		
Deferred tax charge/(credit) for the year	**1,643**	(2,956)
Deferred tax charge impact of change in tax rate	**175**	–
Adjustments in respect of prior years	**(145)**	(20)
Total deferred tax charge/(credit)	**436**	(2,749)

The Group received refunds of tax in Ireland related to prior years totalling £1.3m.

(b) Factors affecting the income tax charge/(credit) in the year

The tax assessed on the loss for the year differs from the standard UK corporation rate of tax. The differences are explained below:

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
(Loss) before tax – continuing operations	**(5,788)**	(9,156)
(Loss) before tax multiplied by the effective standard rate of corporation tax of 19% (2018: 19%)	**(1,100)**	(1,739)
Effects of:		
Utilisation of tax losses brought forward	**(3)**	(2,512)
Unprovided deferred tax movements on short term temporary differences and capital allowance timing differences	**(609)**	(1,001)
Adjustments in respect of prior years	**(1,513)**	(58)
Expenses not deductible for tax purposes	**677**	1,456
Losses carried forward	**452**	839
Difference in foreign tax rate	**58**	266
Deferred tax write-back	**2,237**	–
Impact of change in tax rate	**237**	–
Income tax charge/(credit)	**436**	(2,749)

The majority of the deferred tax asset recognised for the year ended 29 December 2018 was not realised due to lower profit before tax and higher capital allowances than had been forecast.

(c) Factors that may affect future tax charge

The standard rate of corporation tax in the UK is 19% and it is also the rate applied to the Group's profit for the year ended 28 December 2019.

The Group has an unrecognised deferred tax asset relating to temporary timing differences on plant and equipment, intangible assets and provisions of £9.6m (2018: £17.0m) and relating to losses of £10.4m (2018: £8.1m – restated).

These potential deferred tax assets have not been recognised on the basis that it is not sufficiently certain when taxable profits that can be utilised to absorb the reversal of the temporary difference will be made in the future.

In the March 2020 Budget the Government announced that the 2020 Finance Bill will contain provisions for the standard rate of UK corporation tax to remain at 19%, meaning that legislation previously enacted for a reduction to 17% from 1 April 2020 will be reversed. The previously enacted rate of 17% has however been used to calculate the above deferred tax disclosures as the 2020 Finance Bill is not yet substantively enacted.

8. Earnings per share

	Loss after tax from continuing operations £000s	Weighted average number of shares £000s	Loss after tax from continuing operations per share pence
Year ended 28 December 2019	**(6,224)**	**170,207**	**(3.66)**
Year ended 29 December 2018	(6,407)	170,207	(3.76)

Basic loss per share is calculated by dividing the result attributable to equity holders by the weighted average number of ordinary shares in issue for that year.

Diluted loss per share is calculated using the loss for the year divided by the weighted average number of shares outstanding assuming the conversion of its potentially dilutive equity derivatives outstanding, being nil cost share options (LTIP shares), market value options, Sharesave Scheme share options and warrants.

For the years ended 28 December 2019 and 29 December 2018, all of the Group's potentially dilutive equity derivative securities were anti-dilutive for the purpose of diluted basic loss per share and dilutive for the purpose of diluted adjusted earnings per share, with the exception of the 2017 options which were anti-dilutive.

The following is a reconciliation between the basic loss per share and the adjusted basic earnings per share:

	Year ended 28 December 2019 pence	Year ended 29 December 2018 pence
Basic (loss) per share	**(3.66)**	(3.76)
Add back:		
Exceptional items per share(1)	**3.51**	3.77
Amortisation per share(2)	**3.30**	3.47
Income tax (charge)/credit per share	**0.26**	(1.62)
Charge:		
Tax (charge) at prevailing rate	**(0.65)**	(0.35)
Adjusted basic earnings per share	**2.76**	1.51

(1) Exceptional items per share is calculated as total exceptional items divided by the weighted average number of shares in issue through the year.

(2) Amortisation per share is calculated as the amortisation charge divided by the weighted average number of shares in issue through the year.

The following is a reconciliation between the basic and diluted loss per share and the adjusted diluted earnings per share:

	Year ended 28 December 2019 pence	Year ended 29 December 2018 pence
Basic and diluted (loss) per share	**(3.66)**	(3.76)
Add back:		
Adjustment to basic loss per share for the impact of dilutive securities(1)	**0.59**	0.36
Exceptional items per share(2)	**2.94**	3.41
Amortisation per share(3)	**2.77**	3.13
Income tax (charge)/credit per share	**0.21**	(1.46)
Charge:		
Tax (charge) at prevailing rate	**(0.54)**	(0.32)
Adjusted diluted earnings per share	**2.31**	1.36

(1) The warrants, LTIP, market value options and Sharesave share options were dilutive in the year ended 28 December 2019 and 29 December 2018 for the purpose of calculating adjusted diluted earnings per share.

(2) Exceptional items per share is calculated as total finance and non-finance exceptional items divided by the diluted weighted average number of shares in issue through the year.

(3) Amortisation per share is calculated as the amortisation charge divided by the diluted weighted average number of shares in issue through the year.

The weighted average number of shares for the purposes of calculating the adjusted diluted earnings per share are as follows:

	Year ended 28 December 2019 Weighted average number of shares 000s	Year ended 29 December 2018 Weighted average number of shares 000s
Basic	**170,207**	170,207
Market value options	**14,915**	10,292
Warrants	**8,510**	4,501
LTIP share options	**7,576**	1,240
CSOP options	**585**	940
Sharesave scheme options	**972**	1,373
Directors' bonus shares	**247**	–
Diluted	**203,012**	188,553

9. Intangible assets

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 30 December 2018	**124,877**	**26,744**	**23,222**	**22,228**	**197,071**
Additions	**–**	**–**	**–**	**2,339**	**2,339**
Disposals	**–**	**–**	**–**	**(158)**	**(158)**
At 28 December 2019	**124,877**	**26,744**	**23,222**	**24,409**	**199,252**
Amortisation					
At 30 December 2018	**–**	**15,996**	**427**	**16,991**	**33,414**
Charge for the year	**–**	**2,698**	**98**	**2,726**	**5,522**
Disposals	**–**	**–**	**–**	**(62)**	**(62)**
At 28 December 2019	**–**	**18,694**	**525**	**19,655**	**38,874**
Net book value					
At 28 December 2019	**124,877**	**8,050**	**22,697**	**4,754**	**160,378**

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 31 December 2017	128,991	26,744	24,102	20,481	200,318
Additions	–	–	–	1,844	1,844
Cost transferred to assets held for sale	(4,114)	–	(880)	(97)	(5,091)
At 29 December 2018	124,877	26,744	23,222	22,228	197,071
Amortisation					
At 31 December 2017	–	13,346	526	13,937	27,809
Charge for the year	–	2,650	100	3,151	5,901
Accumulated depreciation transferred to assets held for sale	–	–	(199)	(97)	(296)
At 29 December 2018	–	15,996	427	16,991	33,414
Net book value					
At 29 December 2018	124,877	10,748	22,795	5,237	163,657

Analysis of goodwill, indefinite life brands, other brands and customer relationships by cash generating units

	Goodwill £000s	Indefinite life brands £000s	Other brands £000s	Customer relationships £000s	Total £000s
Allocated to					
HSS Core	**111,497**	**21,900**	**256**	**6,849**	**140,502**
Climate control	**7,327**	**–**	**336**	**820**	**8,483**
Power generation	**6,053**	**–**	**205**	**381**	**6,639**
At 28 December 2019	**124,877**	**21,900**	**797**	**8,050**	**155,624**

	Goodwill £000s	Indefinite life brands £000s	Other brands £000s	Customer relationships £000s	Total £000s
Allocated to					
HSS Core	111,497	21,900	276	9,345	143,018
Climate control	7,327	–	399	932	8,658
Power generation	6,053	–	220	471	6,744
At 29 December 2018	124,877	21,900	895	10,748	158,420

The remaining life of intangible assets other than goodwill and indefinite life brands is between one and fifteen years (2018: two and sixteen years).

The Group tests property, plant and equipment, goodwill and indefinite life brands for impairment annually or more frequently if there are indicators that impairment may have occurred. The recoverable amounts of the goodwill and indefinite life brands, which are allocated to CGUs, are estimated from value in use (VIU) calculations which model pre-tax cash flows for the next five years (2018: five years) together with a terminal value using a long-term growth rate. The key assumptions underpinning the recoverable amounts of the CGUs tested for impairment are those regarding the discount rate, forecast revenue, EBITDA and capital expenditure.

The key variables applied to the VIU calculations were determined as follows:

- Cash flows were derived based on the budget for 2020 and model of the business for the following two years (to the end of 2022).
- Operational activity then had the long-term growth rate applied to it while capital expenditure was specifically adjusted to reflect expectations of spend in the following years giving a model of five years in total after which a terminal value was calculated. The long-term growth factor used was 1.4% for each of the CGUs (2018: 1.8%).
- A pre-tax discount rate of 9.1% (2018: 9.7%), calculated by reference to a weighted average cost of capital (WACC) based on an industry peer group of quoted companies.

An impairment may be identified if changes to any of the factors mentioned above become significant, including underperformance of the Group against forecast, negative changes in the UK tool hire market or a deterioration in the UK economy, which would cause the Directors to reconsider their assumptions and revise their cash flow projections.

Based on this VIU modelling and impairment testing, the Directors do not consider an impairment charge to be required in respect of any of the property, plant and equipment, goodwill and indefinite life brands assets carried in the balance sheet at 28 December 2019 for any of the CGUs.

For the CGU groupings listed in the table above in respect of goodwill and brands, the Directors' sensitivity analysis does not result in an impairment charge. In addition, the Directors assessed a variety of individual scenarios covering individual issues related to factors such as lowered revenue growth, capital expenditure plans, general cost inflation and the extension of the time taken to collect cash from customers. The Directors also assessed combined outcomes utilised as part of the going concern and long-term viability assessments, particularly in light of the potential impact of a hard Brexit. Given the level of headroom in VIU these calculations show, the Directors did not envisage reasonably possible changes, either individually or in combination, to the key assumptions that would be sufficient to cause an impairment charge at the balance sheet date.

In respect of HSS Core, at 28 December 2019, the headroom between VIU and carrying value of the related assets was £192.7m (2018: £122.0m). The Directors' sensitivity analysis with regard to HSS Core shows that an increase in the discount rate to 26.7% (2018: 13.4%) or a reduction in the long-term growth rate to a decline of 4.2% (2018: decline of 2.5%) would eliminate the headroom shown. In addition, the Directors have assessed the combined impact of the long-term growth rate falling to zero (2018: zero) and an increase in the discount rate to 10.15% (2018: 10.89%). This shows that the headroom drops to £131.3m (2018: £23.0m) for HSS Core. Each of these rates is viewed as unlikely to occur in the near term and as such no impairment charge was required.

Since the balance sheet date the COVID-19 pandemic has emerged as a threat and means that the Directors' assessment of economic risk has changed. As detailed in note 1, forecasts prepared since the balance sheet date show a large drop in profits in the short-term which could reduce or eliminate entirely the headroom identified in the reviews carried out during 2019. A reasonable estimate of the financial effects in this regard cannot yet be made.

For the purpose of calculating adjusted EBITDA and adjusted EBITA, amortisation, as disclosed on the face of the income statement, is calculated as the total of the amortisation charge for the year and the loss on disposal of intangible assets.

10. Property, plant and equipment

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 30 December 2018	**73,293**	**62,685**	**195,384**	**331,362**
Foreign exchange differences	**–**	**(95)**	**(840)**	**(935)**
Additions	**2,415**	**1,891**	**27,097**	**31,403**
Disposals	**(2,131)**	**(1,482)**	**(37,988)**	**(41,601)**
Transfers	**(72)**	**(1,074)**	**1,146**	**–**
At 28 December 2019	**73,505**	**61,925**	**184,799**	**320,229**
Accumulated depreciation				
At 30 December 2018	**51,431**	**55,125**	**115,677**	**222,233**
Foreign exchange differences	**–**	**(79)**	**(546)**	**(625)**
Charge for the year	**4,316**	**2,521**	**21,764**	**28,601**
Impairment	**209**	**154**	**–**	**363**
Disposals	**(1,568)**	**(1,469)**	**(29,157)**	**(32,194)**
Transfers	**49**	**(316)**	**267**	**–**
At 28 December 2019	**54,437**	**55,936**	**108,005**	**218,378**
Net book value				
At 28 December 2019	**19,068**	**5,989**	**76,794**	**101,851**

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 31 December 2017[1]	71,778	61,033	271,134	403,945
Foreign exchange differences	–	–	115	115
Additions	4,983	2,421	22,578	29,982
Transferred to assets held for resale	(2,304)	(649)	(69,907)	(72,860)
Disposals	(1,164)	(120)	(28,536)	(29,820)
At 29 December 2018	73,293	62,685	195,384	331,362
Accumulated depreciation				
At 31 December 2017[1]	46,918	53,556	152,556	253,030
Charge for the year	6,090	2,241	18,492	26,823
Impairment loss	–	–	533	533
Transferred to assets held for resale	(1,159)	(557)	(37,144)	(38,860)
Disposals	(418)	(115)	(18,760)	(19,293)
At 29 December 2018	51,431	55,125	115,677	222,233
Net book value				
At 29 December 2018	**21,862**	**7,560**	**79,707**	**109,129**

1 Although assets acquired through historic business combinations were correctly recognised as additions at their fair value, in line with the carrying value in the subsidiary financial statements, on disposal, the gross cost and accumulated depreciation was disposed of. An adjustment has been recognised to the Group cost and accumulated depreciation as at 31 December 2017, reversing entries previously made in this regard. These adjustments had no impact on the net book value.

The net book value of materials and equipment held for hire includes an amount of £24.9m (2018: £24.4m) in respect of assets held under finance leases. The depreciation charge for assets held under finance leases in the year ended 28 December 2019 was £5.4m (2018: £4.7m).

The results of the impairment review for property, plant and equipment are included in note 9.

For the purpose of calculating adjusted EBITDA and adjusted EBITA, depreciation, as disclosed on the face of the income statement, is calculated as the total of the depreciation charge for the year, the accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals and the loss on disposal of other tangible assets.

11. Trade and other receivables

	28 December 2019 £000s	29 December 2018 £000s
Gross trade receivables	**72,056**	78,026
Less provision for impairment	**(3,745)**	(3,819)
Net trade receivables	**68,311**	74,207
Other debtors	**2,762**	3,477
Prepayments	**10,499**	6,997
Accrued income	**6,824**	9,300
Total trade and other receivables	**88,396**	93,981

The bad debt provision is estimated using the simplified approach to expected credit loss techniques and is based upon past default experience and the Directors' assessment of the current economic environment for each of the Group's ageing categories.

The total amount expensed was £3.6m (2018: £4.4m); unless the counter-party is in liquidation, these amounts are still subject to enforcement action. The Group considers current and forward-looking information on macroeconomic factors affecting the Group's operating environment when considering adjustments to the loss experience. At the balance sheet date, the Group had considered economic uncertainty around Brexit, and expected GDP growth, inflation and unemployment rates in determining the level of adjustment required.

Provisions are made for credit notes expected to be raised after year end for income recognised during the year.

The overall provisions for bad debt and credit notes amount to 5.2% of trade receivables at 28 December 2019 (2018: 4.9%). A 0.5% increase in the rate of provision required would give rise to an increased provision of £0.4m (2018: £0.4m).

The Group implemented a new system to manage the OneCall rehire business in April 2019. The new system invoices all sales at the end of each period, this is main driver of the reduction in accrued income.

Since the balance sheet date the COVID-19 pandemic has emerged as a threat and means that the Directors' assessment of economic risk has changed. In forecasts prepared since the balance sheet date the Directors have considered scenarios where £20m-£30m of trade receivables are recovered late and £10m are not recovered.

The following table details the movements in the provision for impairment of trade receivables:

	28 December 2019 £000s	29 December 2018 £000s
Balance at the beginning of the year	**(3,819)**	(4,429)
Movement in provision	**74**	324
Balance related to discontinued operations	**–**	286
Balance at the end of the year	**(3,745)**	(3,819)

The provision for impairment of trade receivables is comprised as follows:

	28 December 2019 £000s	29 December 2018 £000s
Bad debt provision	**(1,568)**	(1,885)
Credit note provision	**(2,177)**	(1,934)
	(3,745)	(3,819)

The bad debt provision based on expected credit losses and applied to trade receivables, all of which are current, is as follows:

28 December 2019	**Current**	**0-60 days past due**	**61-365 days past due**	**1-2 years past due**	**Total**
Contract assets, £000s	**63,633**	**7,500**	**6,631**	**1,116**	**78,880**
Expected loss rate	**1.0%**	**3.0%**	**8.3%**	**13.9%**	**2.0%**
Provision for impairment charge, £000s	**633**	**228**	**552**	**155**	**1,568**

29 December 2018	Current	0-60 days past due	61-365 days past due	1-2 years past due	Total
Contract assets, £000s	69,215	9,342	7,330	1,439	87,326
Expected loss rate	0.0%	0.9%	21.0%	17.6%	2.4%
Provision for impairment charge, £000s	8	84	1,540	253	1,885

Contract assets consist of trade receivables and accrued income.

12. Borrowings

	28 December 2019 £000s	29 December 2018 £000s
Current		
Obligations under finance leases	**5,355**	6,304
Revolving credit facility	**–**	13,000
	5,355	19,304
Non-current		
Obligations under finance leases	**11,228**	9,468
Senior finance facility	**174,501**	208,162
	185,729	217,630

The nominal value of the Group's loans at each reporting date is as follows:

	28 December 2019 £000s	29 December 2018 £000s
Senior finance facility	**181,982**	220,000
Revolving credit facility	**–**	13,000
	181,982	233,000

The Group's senior finance facility and revolving credit facility (RCF) expire on 10 July 2023 and 10 January 2023 respectively. £15.0m of the senior finance facility is to be repaid not later than 10 January 2021.

The senior finance facility is secured over the assets of a group company, Hero Acquisitions Limited, and all of its subsidiaries. These subsidiaries comprise all of the trading activities of the Group. The RCF is guaranteed in a similar way to the senior finance facility, save the lenders under the RCF rank above those under the senior finance facility.

After the disposal of the UK Platforms business on 11 January 2019, the Group made a repayment of the senior finance facility amounting to £38.0m (see note 15).

The interest rates on the Group's borrowings are as follows:

			28 December 2019	29 December 2018
Finance leases	Floating	%age above LIBOR	**3.10%**	3.10%
Revolving credit facility	Floating	%age above LIBOR	**3.00%**	3.00%
Senior finance facility	Floating	%age above LIBOR	**8.00%**	8.00%

The weighted average interest rates on the Group's borrowings are as follows:

	28 December 2019	29 December 2018
Weighted average interest rate on borrowings	**10.4%**	7.0%
Weighted average interest rate on leases	**4.8%**	5.7%

Amounts under the RCF are typically drawn for a one to three-month borrowing period, with the interest set for each borrowing based upon LIBOR and a fixed margin.

The Group's leases and borrowings have the following maturity profile:

	28 December 2019		29 December 2018	
	Finance leases £000s	Borrowings £000s	Finance leases £000s	Borrowings £000s
Less than one year	**6,306**	**–**	6,927	13,000
Two to five years	**11,615**	**237,228**	9,993	306,158
	17,921	**237,228**	16,920	319,158
Less interest cash flows:				
Senior finance facility	**–**	**(55,246)**	–	(86,158)
Finance leases	**(1,338)**	**–**	(1,148)	–
Total principal cash flows	**16,583**	**181,982**	15,772	233,000

The repayment of £38.0m of the senior finance facility in January 2019 reduced the facilities available by the same amount. The two to five years category in the table above reduced from £286.5m to £248.5m at that time. In addition, the £13.0m drawn under the RCF was repaid in February 2019 and a new £6.0m overdraft facility was put in place with one of the Group's bankers. This overdraft facility forms part of the overall £25.0m RCF as does a £1.8m guarantee arrangement put in place in October 2018 to secure the Group's card-acquiring services provided by a third party.

The Group had undrawn committed borrowing facilities of £36.6m at 28 December 2019 (2018: £27.1m). Including net cash balances, the Group had access to £59.3m of combined liquidity from available cash and undrawn committed borrowing facilities at 28 December 2019 (2018: £44.7m). This includes the ability to borrow up to £30m (outstanding at any time) under its finance lease facilities. Subsequent to year end, the Group drew down the remaining RCF of £17.2m.

The maturity profile, excluding interest cash flows, of the Group's finance leases is as follows:

	28 December 2019 £000s	29 December 2018 £000s
Less than one year	**5,355**	6,304
Two to five years	**11,228**	9,468
	16,583	15,772

Finance leases principally relate to hire fleet assets.

13. Provisions

	Onerous leases £000s	Dilapidations £000s	Onerous contracts £000s	Total £000s
At 30 December 2018	**4,745**	**16,779**	**22,808**	**44,332**
Additions	**4,942**	**555**	**–**	**5,497**
Utilised during the year	**(2,570)**	**(790)**	**(3,580)**	**(6,940)**
Unwind of provision	**20**	**49**	**345**	**414**
Released	**(2,304)**	**(360)**	**–**	**(2,664)**
Foreign exchange	**–**	**(24)**	**–**	**(24)**
At 28 December 2019	**4,833**	**16,209**	**19,573**	**40,615**
Of which:				
Current	**2,043**	**2,990**	**3,112**	**8,145**
Non-current	**2,790**	**13,219**	**16,461**	**32,470**
	4,833	**16,209**	**19,573**	**40,615**

	Onerous leases £000s	Dilapidations £000s	Onerous contracts £000s	Total £000s
At 31 December 2017	6,607	13,975	32,612	53,194
Assets held for sale	–	(573)	–	(573)
Additions	2,054	5,841	–	7,895
Utilised during the year	(3,254)	(1,312)	(9,918)	(14,484)
Unwind of provision	11	44	114	169
Released, including disposal on sale of business	(673)	(1,196)	–	(1,869)
At 29 December 2018	4,745	16,779	22,808	44,332
Of which:				
Current	3,234	3,488	3,562	10,284
Non-current	1,511	13,291	19,246	34,048
	4,745	16,779	22,808	44,332

Onerous leases

Provisions for onerous leases relate to the current value of contractual liabilities for future rent and rates payments and other unavoidable costs on leasehold properties the Group no longer uses or where a site is partially in use and the lease as a whole is loss-making. These liabilities, assessed on a lease-by-lease basis, are expected to arise over a period of up to 8 years (2018: 9 years) with the weighted average being 3.9 years (2018: 2.5 years). They are stated net of expected sub-let income based on existing sub-let agreements. The onerous lease provision has been discounted at a rate of 0.9% (2018: 0.9%). A 1% increase in the discount rate at 28 December 2019 would reduce the onerous lease provision by £0.1m (2018: £0.1m).

The assessment of whether a site is onerous is based on the current year profit or loss being projected forward to the end of the lease. In considering profitability, expected sub-let income for unused space is considered. The amount of expected sub-let income leases included in the onerous lease provision amounted to £0.9m at 28 December 2019 (2018: £0.5m). Variations in the actual timings or amounts of sub-let income or to the underlying trading and profitability of the site will lead to a commensurate increase or decrease in the amount of provision required in the future.

Since the balance sheet date the COVID-19 pandemic has emerged as a threat and means that the Directors' assessment of economic risk has changed. As detailed in note 1, forecasts prepared since the balance sheet date show a large drop in profits in the short-term which could result in additional leases becoming onerous. Forecasts have not been prepared at a site level and so this has not been quantified.

Dilapidations
The dilapidations provision represents dilapidation costs in respect of the Group's leasehold properties and will therefore arise over the lease lives of the Group's properties, and comprises specific amounts based on surveyors' reports on a property-by-property basis, where available. The remaining properties are covered by an estimate based on gross internal area, adjusted for location, size and age of the property. The weighted average dilapidations provision at 28 December 2019 was £8.68 per square foot (psf) (2018: £8.34 psf). The small change in psf amount is the result of changes in the property portfolio and updates based on survey or landlord negotiations. Estimates for future dilapidations costs are regularly reviewed as and when new information is available. A £0.50 psf increase in the dilapidations provision would lead to an increase in the provision at 28 December 2019 of £0.9m (2018: £1.2m).

The dilapidations provision has been discounted at a rate of 1.26% (2018: 1.26%) at 28 December 2019 based on 10 year UK gilt yields. A 1% increase in the discount rate at 28 December 2019 would decrease both the dilapidations provision and associated fixed asset by £0.8m (2018: £0.6m).

Onerous contract
The onerous contract represents amounts payable in respect of the agreement reached between the Group and Unipart to terminate the contract to operate the NDEC. Under the terms of the agreement at 28 December 2019 £20.3m is payable over the period to 2026 (2018: £24.2m) and £3.6m has been paid during the year (2018: £9.6m). The provision has been discounted at a rate of 1.19% (2018: 1.19%). A 1% increase in the discount rate at 28 December 2019 would decrease the provision by £0.6m (2018: £0.9m).

14. Assets and liabilities classified as held for sale

On 19 July 2018, the Group announced the agreement to sell UK Platforms Limited, HSS's powered access business, to Nationwide Platforms Limited. The clearance of this transaction was secured from the Competition and Markets Authority in December 2018, thereby completing the last major hurdle in the agreement to sell this business. As UK Platforms Limited formed the entirety of the powered access CGU, the assets and liabilities of the CGU were classified as held for sale in the consolidated statement of financial position in 2018. The Group completed the disposal on 11 January 2019 (note 15) and the results of this business until that date have been classified as a discontinued operation. At 29 December 2018, the balance sheet of this business was:

	29 December 2018 £000s
Intangible assets	4,752
Property, plant and equipment	30,612
Deferred tax assets	27
Inventories	358
Trade and other receivables	8,892
Cash	2,075
Assets held for sale	46,716
Debt – finance leases	(5,300)
Trade and other payables	(6,281)
Provisions	(561)
Deferred tax liabilities	(1,402)
Liabilities held for sale	(13,544)
Net assets of disposal group	33,172

The following table shows a summary of the cash flows for UK Platforms Limited:

	28 December 2019 £000s	29 December 2018 £000s
Operating cash inflow	**607**	4,286
Cash outflow from investing activities	**(262)**	(225)
Cash outflow from financing activities	**(47)**	(4,197)

15. Business disposal

Disposal of UK Platforms Limited – discontinued operation
On 11 January 2019, the Group completed the disposal of UK Platforms Limited to Nationwide Platforms Limited, a wholly-owned subsidiary of the Loxam Group, in order to pay down debt and generate cash flow for the expansion of the Group's other businesses. After completion of the sale, £38.0m of the net proceeds was used to pay down Group debt, reducing the senior finance facility from £220.0m outstanding to £182.0m. The table below shows the assets and liabilities disposed of:

	£000s
Description of assets and liabilities:	
Intangible assets (including goodwill)	**4,749**
Property, plant and equipment	**30,725**
Current assets, excluding cash	**6,454**
Cash	**2,373**
Debt – finance leases	**(5,253)**
Current liabilities, excluding debt	**(2,943)**
Deferred tax liabilities	**(1,375)**
Net assets disposed of	**34,730**
Proceeds of disposal less transaction costs	**47,420**
Total profit from disposal of UK Platforms Limited	**12,690**
Costs incurred on disposal of discontinued operations in 2018	**(2,080)**
Profit on disposal of discontinued operations in 2019	**14,770**
Total profit from disposal of UK Platforms Limited	**12,690**

The table below shows the result of discontinued operations:

Result of discontinued operations	**28 December 2019 £000s**	29 December 2018 £000s
Revenue	**1,115**	29,722
Expenses other than finance costs, amortisation and depreciation	**(801)**	(18,524)
Amortisation	**(3)**	(45)
Depreciation	**(149)**	(6,069)
Finance costs	**–**	(440)
Income tax charge	**–**	(577)
Profit from discontinued operations, net of tax	**162**	4,067
Profit on disposal of discontinued operations	**14,770**	–
Costs incurred on disposal of discontinued operations	**–**	(2,080)
Profit for the year	**14,932**	1,987

16. Post Balance Sheet Event

The emergence of COVID-19 as a threat

Since the balance sheet date, a new virus, COVID-19, has resulted in a pandemic which is impacting the Group's performance. This represents a non-adjusting post-balance sheet event. Information on the Group's response to COVID-19 can be found in note 1 (going concern). It is expected that there will be a material adverse impact on profit in 2020 and that credit risk will increase due to the Group's customers facing a drop-off in sales and reductions in liquidity headroom.

The potential impact of COVID-19 on the Group's impairment review, expected credit losses and onerous lease provisions are detailed in notes 9, 11 and 13 respectively.